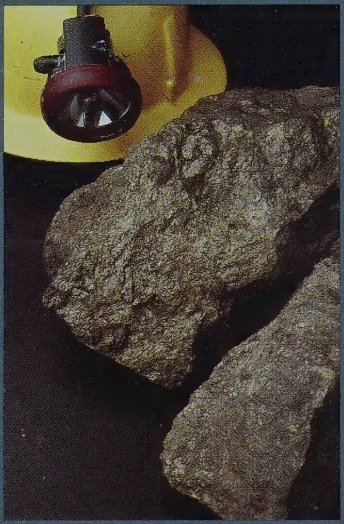
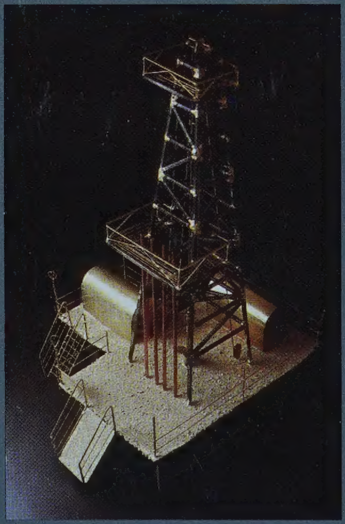
Campbell Resources Inc.

Formerly
Campbell Chibougamau Mines L

Annual Report 1981



Campbell Resources Inc. is the principal company in a group of related natural resource and energy companies.

Campbell participates in precious and base metal mining through its interests in Camchib Resources Inc., in oil and gas production and exploration in Canada, the United States and overseas through Inverness Petroleum and its Petroleum Reserve Corp.

It also participates in coal mining and exploration in the United States through Carbonex Coal and Coal Corporation of America and in asbestos mining through its investment interests in United Asbestos Corporation.

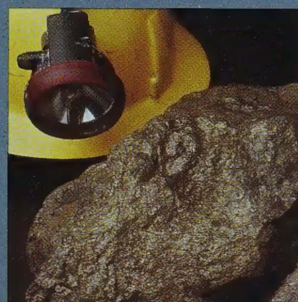
Campbell explores for base and precious metals worldwide through its exploration organizations located in Toronto and Vancouver.

Annual and Special General Meetings to be held on Wednesday, December 30, 1981, at 9:30 a.m. and 2:00 p.m. respectively, at the Château Champlain, Montreal, Quebec.

On peut se procurer la version française de ce rapport en s'adressant au secrétaire de la Compagnie.

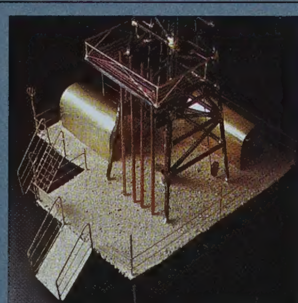
Campbell Resources Inc.

Metal Mining

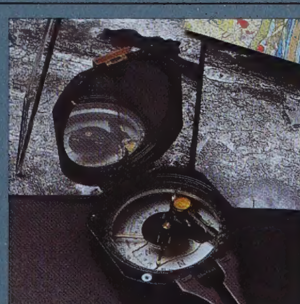


Coal Mining

Oil and Gas



Exploration



* Percentages indicate Campbell's ownership

To the Shareholders

This Annual Report for the year to June 30, 1981 outlines many important developments in the further evolution of Campbell. The year 1981 was the most significant in Campbell's history as the full thrust of expansion into oil, gas and coal was initiated.

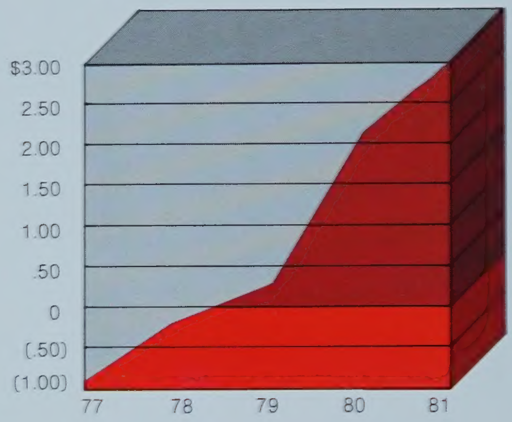
The first phase of this expansion has now been completed. In a very short period of time, Campbell has come from a mining-oriented company, with minor interest in oil and gas, to a full-scale diversified resource company with balanced activities in the metal and mineral mining, petroleum and coal sectors. The achievements of 1981 in this expansion program are best illustrated by the chronological series of developments listed below:

Major Developments

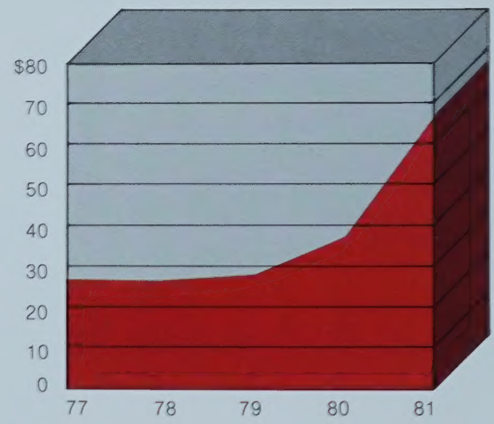
- acquisition of controlling interest in Coal Corporation of America operating coal strip mines in Kentucky.
- formation of Inverness Petroleum Ltd., a public company with oil and gas interests in Canada, the United States and overseas.
- evolution of Camchib Resources Inc. as a separate public company with precious and base metal mining and exploration operations in Quebec.
- acquisition of controlling interest in Skye Resources Ltd., a public company with oil, gas and coal interests in the United States
- acquisition of a significant holding in United Asbestos Inc. with mining interests in Quebec.

Thus, the Campbell group of companies now embodies Camchib Resources Inc. (81.3% owned), a Quebec-based copper, gold and silver mining company with three operating mines and several significant mining prospects in the Chibougamau area of Quebec; Inverness Petroleum (58.5% owned), an Alberta-based oil and gas company with producing wells in Canada and the United States and world-wide exploration activity; Skye Resources' Petroleum Reserve Corporation (53.7% owned) an Oklahoma-based petroleum production and exploration company; Skye Resources'

Earnings (Loss) per Share
dollars



Shareholders' Equity
millions



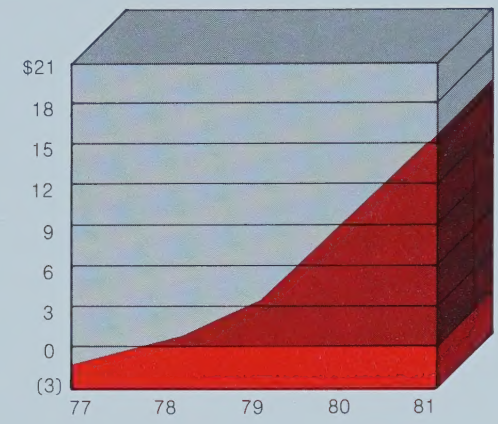
Carbonex Coal (53.7% owned), an Oklahoma-based strip mining coal company and Coal Corporation of America (80% owned), a Kentucky-based strip mining coal company.

Since November of 1979, Campbell has been dedicated to a philosophy of achieving growth in cash flow and profits through geographic and product diversification in natural resources. The policy of the company is to achieve this goal through the fostering of a group of independently managed companies with Campbell as the major managing partner. These companies have all been acquired or established with a strategic purpose for long term opportunities. All of our companies are or will be self financed and self sufficient from a management point of view. The overall emphasis is that all aspects of the company should be dedicated to:

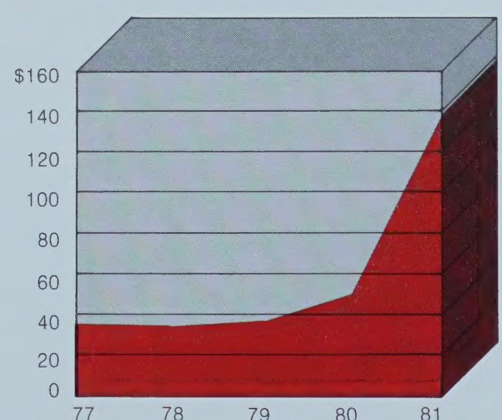
- a policy of growth and diversification in natural resources.
- an emphasis on acquiring proven or semi-proven resource properties such that cash flow can be quickly achieved.
- the utilization of tax dollars to finance exploration.
- the ability to act promptly and decisively when opportunities are made available.
- an acquisition of assets to set a specific base for a unit that can grow internally by exploration and development.

The true growth of a resource company must come from the discovery and development of new ore bodies and hydrocarbon accumulations. In this light, we are pleased to have participation in a host of resource projects ranging from potential oil and gas acreage in Tunisia held by Inverness Petroleum to titanium ore processing by Camchib and a potentially significant gold deposit in California. These and other favourable projects will be discussed in this and future reports of Campbell and its companies.

Operating Income
millions



Total Assets
millions



Highlights	1981	1980
Earnings per share	**$3.04**	$2.12
Net income	**$ 13,185,000**	$ 9,278,000
Operating income*	**$ 15,860,000**	$10,653,000
Working capital	**$ 8,537,000**	$ 9,754,000
Investments	**$ 12,323,000**	$ 8,657,000
Capital outlays	**$ 18,266,000**	$ 7,736,000
Total assets	**$138,412,000**	$48,737,000
Shareholders' equity	**$ 65,577,000**	$38,029,000
Equity per share	**$12.02**	$8.71

* Before provisions and taxes and including $6,106,000 pre-acquisition income of majority-owned companies in 1981.

Of constant and overriding concern is that our acquisition and diversification should have a strategic corporate purpose and should be of benefit to the shareholder and not be growth for growth's sake. Having achieved a major portion of our strategic acquisition and diversification plan, the management of the company is now dedicated to creating increased efficiency in operations and staff in order to create increased cash flow and profits.

The past year has been very significant; the accomplishment of what has occurred in the company has taken the talents and dedication of all our employees and for that we extend our gratitude to each and every one.

On behalf of the Board,

N. Goodman
Chairman of the Board

R. L. Lister
President and Chief Executive Officer

December 9, 1981

Company Operations Legend

- Metal Mining
- Coal Mining
- Oil and Gas
- Exploration


Mediterranean Area

Effective January 1, 1981, the Company transferred its mining assets and operations situated in the Province of Quebec to its associate company, Camchib Resources Inc. (formerly C. M. & S. Mines Inc.), in exchange for 5,350,000 special shares of Camchib. As a result, Campbell held approximately 79% of Camchib's equity shares at June 30, 1981, subsequently increased to 81.3%. This step was taken in accordance with a policy of setting up Camchib as a free-standing independent company.

Camchib Resources Inc. (81.3%)

Operations

With higher gold and lower copper prices, the mining plan was designed to increase gold output at the expense of copper. Production from the mines was 434,000 tons of ore in 1981, somewhat lower than the 480,000 tons mined in 1980. Output from the Gwillim Mine increased since this Mine was in production for a full year as compared to 2½ months in 1980. This increase did not fully compensate for the production from the Original Mine surface pillar during 1980.

Production from the Henderson Mine II increased slightly in 1981 and Cedar Bay maintained its output. Production of gold increased from 26,462 oz. in 1980 to 30,051 oz. in 1981, while copper declined from 9,261,000 lbs. in 1980 to 6,316,000 lbs. in 1981.

Development continued on the internal shaft or winze at the Henderson Mine II and completion is scheduled for May 1982. This project will open up three new production levels and make available for mining a minimum of 700,000 tons of ore, grading 0.10 oz. of gold per ton and 1.2% copper. Also at Henderson II, a new zone was discovered by underground diamond drilling, with indicated reserves of 165,000 tons, grading 0.09 oz. per ton of gold and 0.67% copper. Production from this zone is expected in December 1981.

At the Gwillim Mine, surface and underground exploration identified two new ore zones, now under development, which have added 61,000 tons of ore to the minerals inventory, almost offsetting the tons mined in the year 1981.

Exploration

Exploration efforts have been greatly increased in the past year and programs currently underway involve an expenditure of almost $13 million. The purpose is to discover and develop orebodies, especially those whose ore can be processed at the Camchib Mill in Chibougamau.

To achieve this expansion in exploration, Camchib created and sold interests in a mineral exploration partnership or drilling fund. Such partnerships are common in the oil and gas industry but comparatively rare in mining. The Province of Québec offers a favourable tax incentive for residents who invest in exploration for mineral resources in the province. This partnership will contribute approximately $7,000,000 to exploration.

The range of projects is broad — from grass roots to evaluations of known reserves. The major projects, Devlin, Belle and Taché Lake, involve driving underground declines to known deposits which have early completion dates. The S-3 project involves deepening the shaft at the Henderson 1 Mine and then driving a drift 8,000 feet under Lake Chibougamau to a gold-copper deposit. Deep drilling has started on the Québec-Chibougamau property, a former gold-copper producing mine, in order to test whether the ore zone extends at depth.

The average selling price of gold increased by 40% in 1981 over 1980.

Summary of Results

	1981	1980
Sales ($000)	$28,997	$25,073
Mining Income ($000) *	8,966	10,993
Tons Mined (000)	434	480
Volume of Gold Sales (oz.)	30,478	25,880
Volume of Copper Sales (lbs.) (000)	6,844	9,694
Average Selling Price of Gold (oz.)	$703	$500
Average Selling Price of Copper (lbs.)	$1.02	$1.15

* Before administration and interest charges, provisions and taxes.

Coal Mining

Campbell owns interests in two coal companies, firstly through its 53.7% holding in Skye Resources Ltd. which owns Carbonex Coal Company and secondly, through the 80% interest in Coal Corporation of America.

Carbonex Coal Company (53.7%)
Skye Resources
Skye's coal operations are handled by its subsidiary Carbonex Coal Company which operates three mines in Oklahoma.

Operations were expanded to five pits from three during the year and two previously idle draglines were brought into service. Total coal sales in fiscal 1981 were 393,000 tons, an 18% increase from the 334,000 tons sold in fiscal 1980. Sales of low sulphur Sequoyah coal in 1981 were 231,000 tons compared to 95,000 tons sold in 1980. Prices for low sulphur coal have improved substantially since January 1981, with continuing steady improvement probable. Carbonex expects to produce and sell low sulphur coal at an annual rate approaching 300,000 tons in 1982. While Carbonex will continue to mine and market higher sulphur coals in response to the demand of specific existing customers, it is unlikely that significant new market demand will develop for this type of coal in the immediate future. Carbonex expects a high sulphur coal production rate of 240,000 tons in 1982.

Major emphasis in fiscal 1982 will continue to be placed on improving the productivity of existing operations. While no expansion in the number of active mines or pits is contemplated, expansion of output is forecast. This expansion is expected to be achieved through better use of mobile equipment.

Capital expenditures for 1982 will be concentrated on replacement of existing equipment and acquisition of coal reserves in Northeastern Oklahoma.

Coal Corporation of America (80.0%)
Coal Corporation of America (Coal Corporation) owns a tipple and coal reserves in Harlan County, Kentucky and an operating subsidiary, Shaker Coal Company Inc., which operates three surface mines in Eastern Kentucky. Campbell acquired 52.8% of Coal Corporation in October 1980 and increased its interest to 80% in August 1981. Coal Corporation acquired Shaker Coal in September 1980.

Shaker's major market is through a long-term contract with a utility company in Kentucky. This contract expires March 1989 and calls for the sale of 30,000 tons per month with escalating prices. Production of coal has risen from 15,000 tons to 30,000 tons per month in the last nine months. A third mine site was added in June 1981 and started production in July. A major program to improve and replace mineral equipment was undertaken in 1981 partly to open the third mine, but also to increase operating efficiency. The equipment fleet has increased from 22 pieces to 33 pieces since September 1980.

In order to expand its operations Shaker has undertaken a continuing program to upgrade and increase reserves. Leasing, prospect drilling and reserve evaluation are being conducted in a systematic fashion.

Output and operating capacity increased significantly in the year.

Summary of Results

	1981	1980
Sales ($000)	$25,265	—
Mining Income ($000) *	5,034	—
Tons Sold	716,000	—

* Before administration and interest charges, provisions and taxes, and including pre-acquisition earnings.

Oil and Gas

The Company's interests in oil and gas are held through its 39.7% holding in Inverness Petroleum Ltd. and its 53.7% holding in Skye Resources Ltd. (Skye). Since Skye owns 35% of Inverness, Campbell, directly and indirectly, owns 58.5% of Inverness Petroleum Ltd.

Inverness Petroleum Ltd. (58.5%)

In 1980, Campbell's oil and gas interests were held through a 98% owned subsidiary, CCH Resources Ltd. On July 2, 1980 CCH acquired all the shares of Skye Resources (Alberta) Ltd. (Skye-Alberta). Total consideration for this acquisition amounted to $24.4 million in shares and cash. CCH subsequently changed its name to Inverness Petroleum Ltd. Public participation was achieved with the completion of an equity financing which added $12.5 million to the treasury in December 1980.

Production

As a result of the acquisition of Skye-Alberta and exploration activity during the year, Inverness' production increased greatly in 1981 over 1980. Gas production increased from 1.9 million to 4.0 million cubic feet per day and oil rose from 40 to 313 barrels per day. Gas reserves increased from 15.0 billion to 36.7 billion cubic feet and oil reserves rose from 652,000 to 4,783,000 barrels.

Production in Canada was significantly affected by Government decisions in 1981. Oil production was adversely affected by the Alberta Government's decision to cut back production while demand in British Columbia was substantially reduced by lower export sales to the American Northwest as a result of the high export price. The introduction of the National Energy Program in October 1980 and the subsequent Federal-Provincial confrontation has had a depressing effect on the industry.

The oil and gas picture in the U.S. is quite different. Inverness oil production rose 67% to 11,637 barrels and gas 44% to 50.4 million cubic feet from fiscal 1980 in the United States.

Drilling and Land Holdings

Inverness participated in 54 wells during 1981, completing 37 oil or gas wells. Of these successful wells, 15 were exploratory and 22 were development. Since June 30, 1981, Inverness has drilled successful oil wells in North Santa Clara (California) and Shekilie (Alberta), as well as four successful gas wells in Chump Lake (Alberta). Oil discoveries were made in Illinois in an area where Inverness can earn an interest in up to 25,000 acres. Three indicated oil & gas discoveries in West Virginia are awaiting test results.

Inverness' efforts to expand its land holdings in the United States have been most successful. Gross acreage has increased 429% over 1980 to 266,886 acres and net acreage 475% to 69,983 acres. The largest increases were in the Appalachian Basin. Other areas are Illinois, Montana, Colorado and California.

Increases in Canadian land holdings were less dramatic and were largely due to the acquisition of Skye-Alberta. Gross acreage rose 31% to 807,860 acres and net acreage by 22% to 107,598 acres.

Petroleum Reserve Corporation (53.7%)
Skye Resources

Skye oil and gas operations are wholly in the U.S. and are held by its 100% subsidiary, Petroleum Reserve Corporation (PRC). The former Canadian operation, Skye-Alberta, was sold to Inverness in July 1980.

Oil production in 1981 was 136,600 barrels compared to 138,000 barrels in 1980, while gas production was 701,000 m.c.f. compared to 794,000 m.c.f. in 1980. Oil production is expected to increase in fiscal 1982, reflecting the production from new reserves added over the last few months. Gas production has declined because gas purchasers have cut back in certain areas, and because PRC has concentrated its exploration efforts on oil. However, the economic value of gas produced should increase, due to price increases, even with some decline in volume.

PRC drilled 28 gross wells and 16 net wells in 1981 up from 25 gross and 12 net wells in 1980. Results were good, with 12.4 of the 16 net wells being completed as producers.

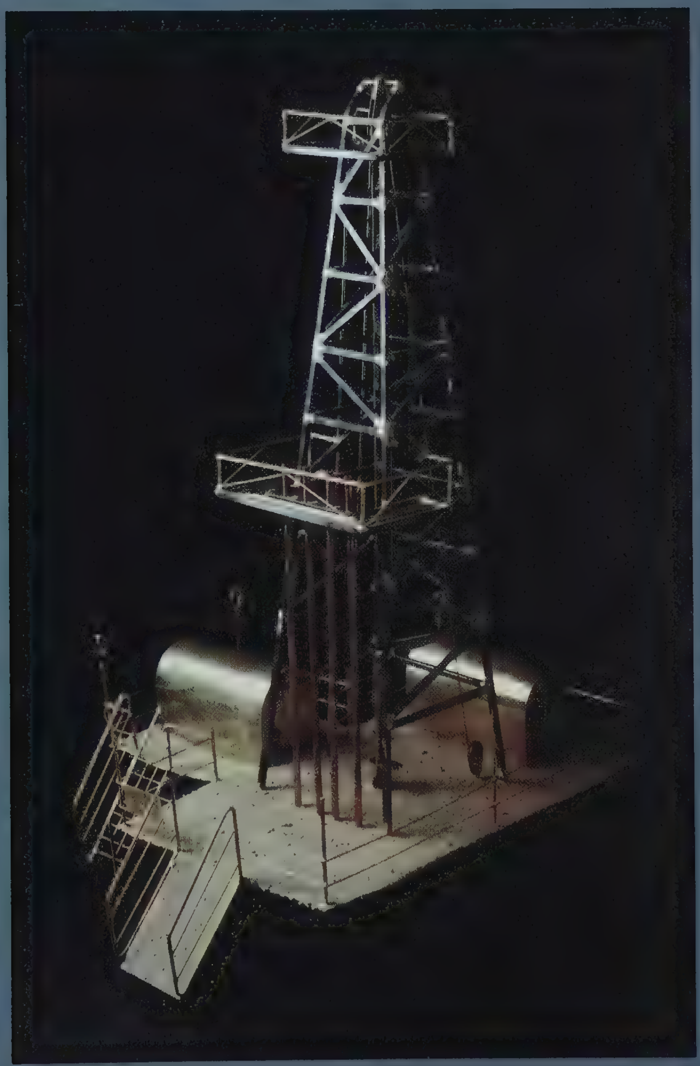
Reserves assigned to these new wells by a firm of consulting engineers are 236,600 barrels of oil and 1,581,000 m.c.f. of gas. These additions represented 1.75 times the oil and 2.25 times the gas produced in fiscal 1981.

The investment in oil and gas properties increased from $6,000,000 to $51,000,000.

Summary of Results

	1981	1980
Sales ($000)	$11,004	$1,361
Oil and Gas Income ($000) *	7,622	1,089
Volume of Oil Sales (bbls.) (000)	250	15
Volume of Natural Gas Sales (m.m.c.f.)	2,148	692

* Before administration and interest charges, provisions and taxes, and including pre-acquisition earnings.



Exploration

Five wells were drilled in the Paradise Field in Lincoln County, Oklahoma and completed as oil producers. Two wells were completed as oil and gas producers from the Redrock sand in the South Thomas Field in Custer County, Oklahoma.

The Hiebler 32-2 in Logan County, Oklahoma was completed in the Skinner sand as a gas well. PRC has an 85% working interest in this well, which could prove to be a significant producer. Test results and production from adjacent wells, including the Hiebler 32-1 in which PRC has a 25% interest, indicate that reserves should be close to 1.0 bcf. Production should begin within the next few weeks under a gas sales agreement with Sun Oil Company.

Two additional wells were completed in the Skinner sand in Lincoln County in 1981, following up on an additional discovery well, the Parker 19-1. The State 20-1 has been placed on production as a gas well and the Parker 19-3 as an oil well. Another well is now being drilled in this area.

PRC expects to expand its drilling activity in fiscal 1982. Total capital expenditures and wells drilled are expected to exceed last year's totals.

Campbell's rapid growth in the past five years has resulted in a change in the geography of the Exploration Division's thrust. Exploration in Québec, previously a large part of the overall effort, has been taken over by Camchib, with its own staff.

Exploration in the rest of North America is handled by CCH Minerals Ltd. and expenditures in fiscal 1981 totalled $2,014,000 of which $1,365,000 has been provided by our joint venture partners.

Emphasis continues in the search for mineral properties showing promise of early success.

Rich Gulch Gold Property

In April 1981 Campbell reached an agreement with Inca Resources Inc. of Vancouver on that company's 1,500 acre Rich Gulch Gold property northeast of Sacramento, California. Conclusion of this agreement gives Campbell the right to a 60% interest in the net profits from the property in return for putting the property into production.

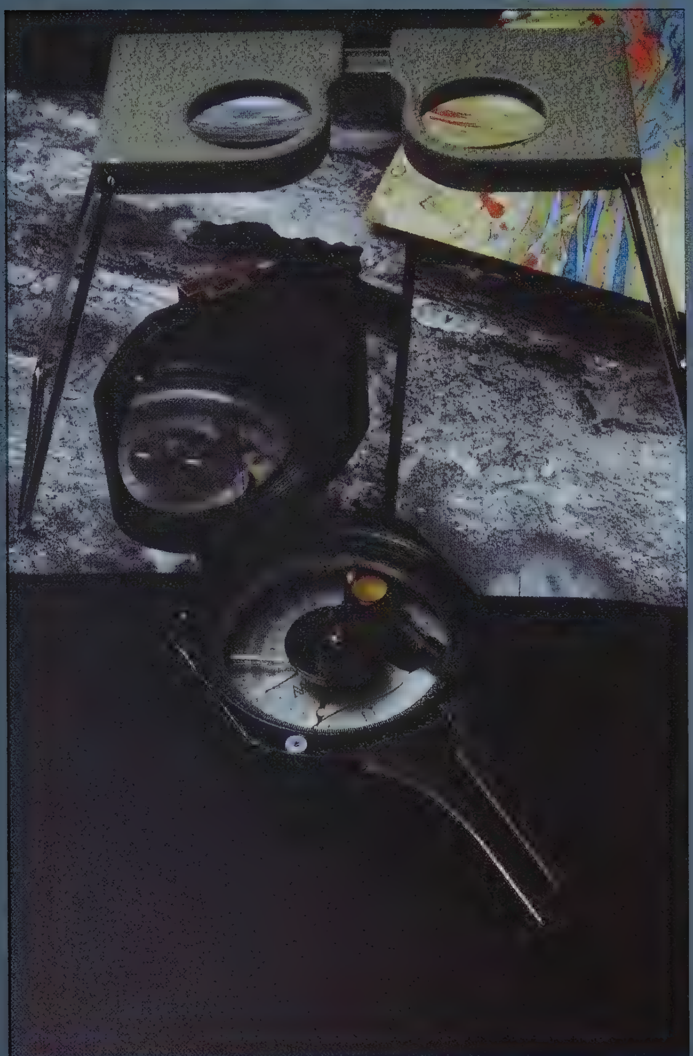
Numerous gold bearing lenses occur on this property which has a history dating back to the 1860's when gold was placer mined in Rich Gulch. In the 1920's, Homestake Mining carried out an extensive exploration program on part of the property. At the prevailing price of $20 per ounce of gold, the property was not considered economic and was abandoned. During the middle and late thirties the south end of the gold bearing stratum produced over 320,000 tons grading about 0.22 ounces of gold per ton under the auspices of the Virgilia Mining Co. The mine was closed by the War Measures Act and has been dormant ever since.

Under the direction of Inca the property took on a more interesting aspect and a concept has been evolved which might indicate a lens system within a strike length of 15,000 feet and a vertical range of 2,500 feet. Eighteen such units have so far been identified averaging 600 feet in length and up to 100 feet thick.

Present work is being concentrated on the central part of the property where topography and the concentration favour the potential of open pit operations.

Campbell is optimistic about this project and feels that it could develop into a substantial gold producer.

Exploration activities expanded in Canada and Mexico and were extended into California.



Cortin Joint Venture

This joint venture formed to search for tin in the Yukon Territory and British Columbia, is in its fourth year. Participants, with Campbell as manager, are Billiton Exploration Canada Ltd. and Canadian Nickel Co. Ltd. Work in 1981 has been greatly expanded and has been concentrated on the EPD claims in the Yukon where trenching and wide spaced drilling have extended the strike length of the tin bearing horizon discovered previously to over 1400 meters. Seventeen diamond drill holes over the past three summers have intersected the horizon, eight of them this year. Most holes have intersected significant tin with associated silver over narrow widths. The best intersection in 1981 grades 1.89% tin, 19.6 grams silver/tonne in a core length of 1.55 meters.

Work has been carried out this field season on four properties, other than EPD, on which cassiterite, the principal tin mineral, has been discovered.

Emphasis will be focussed on the EPD Group again in 1982 and will entail a detailed study of the tin bearing structure with a view to further assessing the deposit.

Norcen Uranium Joint Venture

This joint venture, with an annual budget of $1,000,000, is in its fifth and final year and represents a Canada wide search for uranium. Norcen Energy Resources Limited is the operator and participants, other than Campbell, are E & B Explorations and Ontario Hydro.

Early success was achieved with the Blizzard uranium deposit in British Columbia which contains in excess of 10,000,000 pounds of open pittable uranium oxide. The deposit remains on inventory until the moratorium on uranium mining imposed by the Provincial Government is lifted.

In 1981 active exploration was concentrated on three properties located in Alberta, Saskatchewan and Nova Scotia. Diamond drilling has been carried out in Alberta and Nova Scotia.

In 1982 the search for new projects will cease. Work will be confined to past projects on which some encouragement has been indicated.

Other Prospects in Canada

The Company is involved in other base and precious metal prospects in British Columbia, Ontario and New Brunswick and is active in property evaluations throughout North America.

Mexican Properties

The Company together with Camchib holds interests in 2 companies operating in the State of Sonora in northern Mexico.

Compañia Miñera Trans-Río S.A. de C.V.

Trans-Río owns the Washington Mine which, with large adjoining holdings, was optioned to Compañia Fresnillo S.A. (operator) and Minas Peñoles S.A. de C.V. two years ago. The above companies exercised their option in February 1981 and between them have earned a 71% interest in the company with Campbell and Camchib together retaining 29%.

Drilling from underground at the Washington Mine is continuing and has shown mineralization of copper, tungsten, silver and molybdenite to extend to 1400 feet below surface, 600 feet deeper than previously calculated in the ore reserves. The molybdenite appears to replace copper with depth which can significantly improve the value of the ore.

A mine development decision is anticipated in the new year.

Minerales de Sotula S.A. de C.V.

Campbell and Camchib own 49% of Sotula, a company exploring in the State of Sonora. Emphasis in the past year has been placed on a search for small to medium size, better than average grade, base and precious metal deposits. Numerous properties have been assessed and a number are being studied with a view to acquisition.

Percussion drilling is underway on a potential open pit gold situation on the Cerro de Oro property where initial rock geochemical sampling has indicated gold values up to 10 g per tonne enveloped by a much larger area giving anomalous copper values in excess of 200 p.p.m. Visible gold has been found in a number of rock specimens and has been panned from the percussion drill samples. Diamond drilling is planned later in the year.

A promising volcanogenic base/precious metal prospect has been acquired where an electromagnetic survey is planned this winter. A small open pit here has produced a limited tonnage grading 200 g silver, 10% lead, 2% copper.

Sotula is seeking partners to explore two large porphyry copper-molybdenum prospects that it owns on the extension into Sonora of the Arizona porphyry copper belt.

Summary	1981	1980	1979
Key results:		(in thousands, except earnings per share)	
Metals income	$ 8,966	$10,993	$ 3,116
Coal income*	$ 5,034	—	—
Oil and gas income*	$ 7,622	$ 1,089	$ 834
Operating income**	$ 15,860	$10,653	$ 3,605
Income before extraordinary items	$ 2,763	$ 9,278	$ 1,286
Net income	$ 13,185	$ 9,278	$ 1,286
Earnings per share before extraordinary item	$ 0.64	$ 2.12	$ 0.29
Earnings per share	$ 3.04	$ 2.12	$ 0.29
Working capital increase (decrease)	$ (1,217)	$ 5,759	$ (3,287)
Total assets at June 30	$138,412	$48,737	$ 36,049

* includes income of majority-owned companies prior to acquisition.
** includes $6,106,000 pre-acquisition income of subsidiaires in 1981.

The amounts shown above and elsewhere in this section for metals, coal and oil and gas income represent income before deduction of general administration, interest, amortization and taxes, and include pre-acquisition earnings of majority-owned companies.

All references in the following discussion to the years 1981, 1980 and 1979 are references to fiscal years, unless otherwise indicated. All figures are in Canadian dollars unless otherwise stated. The rate of exchange was approximately $1 Can. = 83¢ U.S. at June 30, 1981.

Acquisitions and reorganization

During 1981, Campbell and its associated companies made three major acquisitions, undertook a major corporate reorganization and raised approximately $35,000,000 through issues to the public of shares and limited partnership interests in a mineral exploration program. These transactions account for the majority of changes in the results for 1981 as compared to 1980. The acquisitions are fully consolidated in the results for the year, with appropriate adjustments being made for the share of income and of net worth belonging to the minority shareholders, including pre-acquisition earnings.

The following major transactions occurred during 1981:

(a) In July 1980 Campbell's oil and gas subsidiary purchased the Canadian oil and gas subsidiary of Skye Resources Ltd., following which Campbell held 53% of the shares in the combined company, now called Inverness Petroleum Ltd. (Inverness). In December, Inverness made a public share issue for gross proceeds of $13,440,000 as a result of which Campbell's interest in Inverness was further reduced to 39.7%. Inverness then ceased to be a subsidiary company.

(b) In April and October 1980, Campbell acquired a 52.8% interest in Coal Corporation of America (Coal Corporation). Coal Corporation purchased, in September 1980, all the shares of Shaker Coal Company, Inc., an operating coal company with mines in Eastern Kentucky. Subsequent to June 30, 1981, Campbell increased its shareholding in Coal Corporation to 80.0%.

(c) Effective June 30, 1981, Campbell acquired 900,000 shares of Skye Resources Ltd. (Skye) in exchange for Campbell shares, thus increasing its interest in Skye from 19.1% to 53.7%. Skye, through its subsidiaries, owns oil, gas and coal operations in the U.S. and also holds a 35% interest in Inverness. As a result of this acquisition, Inverness reverted to its previous status of a subsidiary company, with Campbell having a combined interest of 58.5%.

(d) Campbell sold its mining and mineral exploration assets and operations situated in the Province of Quebec, to its affiliate, Camchib Resources Inc. (formerly C.M. & S. Mines Inc.) in exchange for 5,350,000 special shares. This transaction, approved by shareholders in March 1981, was effective as of January 1, 1981, and increased Campbell's interest in Camchib from 46.7% to 91.6%. On June 30, 1981, Camchib made a public issue of 1,000,000 shares and 500,000 warrants for $7,500,000 and at the same time, sold $7,500,000 of interests in a Limited Partnership formed to participate with Camchib in a minerals exploration joint venture.

(e) In December 1980, Camchib made a private placement of $6,000,000 of 10% convertible debentures. Camchib then purchased 800,000 shares of Campbell for $14,000,000, thus increasing its holding

from 272,010 shares (6.1%) to 1,072,010 shares (20.3%). The percentage interest held by Camchib later declined to 17.0%, due principally to the issue of 900,000 shares by Campbell in exchange for the Skye shares.

As a result of these changes, Campbell has become an investment management company rather than an operating mining company. The importance of the mining division has declined in overall importance and Campbell will, in future, be affected to a much greater degree by the economic conditions of the coal and petroleum and natural gas industries.

Earnings

Metals Mining	1981	1980	1979
Metals sales (000)	$28,997	$25,073	$11,884
Metals income (000)	$ 8,966	$10,993	$ 3,116
Average selling price			
Gold — per oz.	$ 703	$ 500	$ 259
Copper — per lb.	102.2¢	115.0¢	87.8¢
Quantity sold			
Gold — oz.	30,478	25,880	21,478
Copper — lbs. (000)	$ 6,844	9,694	6,934
Production			
Tons milled (000)	434	480	326
Gold — oz.	30,051	26,462	20,881
Copper — lbs. (000)	6,316	9,261	7,943

Income from metals mining declined in 1981 as compared to 1980, due to rising costs and to the decline in the volumes and the prices of copper sold. Production in 1980 was higher than 1981 as a result of the mining of the surface pillar of the Original Mine. This pillar was mined by open pit methods at a relatively low cost. The average selling price of gold improved substantially in 1981 and production rose, due to the Gwillim Mine being in production for a full year in 1981 as compared with 2½ months in 1980. Income from metals more than tripled in 1980 over 1979, due to higher prices, particularly gold and to the mining of the surface pillar.

Oil and gas

Oil and gas income increased from $1,089,000 in 1980 to $7,622,000 in 1981, due to the acquisition of Skye Resources Ltd. in June 1981 and to the acquisition by Inverness of the Canadian assets of Skye in July 1980. Income before acquisition is included in these results. Sales and operating income for 1981 by subsidiaries were:

	Sales	Income
	($000)	($000)
Inverness	$ 3,209	$2,383
Skye	7,795	5,239
	$11,004	$7,622

Oil and gas sales and income in 1980 and 1979 were all derived from CCH Resources Ltd., the predecessor company to Inverness.

Coal

Sales and income from coal in 1981 were as follows:

	Sales	Income
	($000)	($000)
Coal Corporation	$12,596	$2,352
Skye	12,669	2,682
	$25,265	$5,034

The above figures reflect the full year's operations, including the results prior to acquisition by Campbell. Campbell had no sales or income from coal operations in 1980 and 1979.

Other revenue and expense

1) Interest and other income increased in 1981, due to the acquisition of Skye and to the investment of funds from the public financings in Inverness and the sale by Campbell of 800,000 shares to Camchib for $14,000,000.

2) Long-term interest expense increased, due to consolidation of Skye, Coal Corporation and Inverness and to high interest costs in Camchib. Camchib issued $6,000,000 of debentures and incurred bank loans, which have subsequently been substantially repaid, to acquire its shares in Campbell. Other interest also

increased, mainly due to short-term financing of the expansion of Camchib.

3) Provisions for depreciation, depletion and amortization rose from $3,153,000 in 1980 to $9,878,000 in 1981, due principally to the consolidation of the results of Skye, Inverness and Coal Corporation. Amortization of development costs in relation to metal mining rose from $1,278,000 in 1980 to $2,229,000 in 1981 as a result of increasing costs of development and also because of a full year's production from the Gwillim Mine where the amortization rate per ton is high compared to other mines.

Sale of investment

In 1980, Campbell sold its shares in Peyto Oils Ltd. to earn a profit of $5,931,000 before taxes and $4,464,000 after taxes.

Changes in financial position

Principal Changes:	1981	1980	1979
	($000)	($000)	($000)
Total assets	$ 138,412	$ 48,737	$ 36,049
Working capital			
— Increase (decrease)	(1,217)	5,759	(3,287)
Funds from operations	9,678	10,583	3,434
Issue of shares by majority-owned companies	20,062	—	—
Increase in long-term debt	—	—	3,347
Capital spending			
Metal Mining	6,982	4,569	1,972
Coal mining	2,984	—	—
Oil and gas	5,744	1,929	1,276
Exploration	2,556	1,238	1,097
	18,266	7,736	4,345
Investments	9,775	5,846	5,416
Reduction in long-term debt	10,967	2,758	730

The principal changes during 1981 reflect the acquisition and public issues described above. Pre-acquisition spending by Skye and Coal Corporation is not reflected above.

The near tripling of total assets in 1981 flows from the acquisition of Skye, Inverness and Coal Corporation. The Campbell Group raised capital through the issue by Camchib of the 10% convertible debenture for $6,000,000 and the issue of 1,000,000 shares and 500,000 warrants for $6,750,000 net of underwriting commission and expenses.

Capital expenditures in metal mining on equipment and deferred development increased in 1981 over 1980, due to purchases of equipment for the expanded exploration program and to the sinking of an internal shaft at the Henderson II Mine.

Campbell had acquired 1,042,100 shares of United Asbestos Inc. by June 30, 1981, at a cost of $9,405,000. Subsequently, Campbell acquired additional shares to hold 1,400,000 shares (19.8%). Camchib also acquired 700,000 shares (9.9%) of United Asbestos on October 13, 1981.

Funds from operations provide for the majority of expenditures incurred in the expansion of output from natural resource properties. Funds have also been provided from issue of securities to the public. Campbell and its majority-owned companies plan to offer to the public participation in additional minerals exploration ventures. Further acquisitions of companies or natural resource properties would probably be financed by stock issues or by bank loans secured on the assets acquired. Included in working capital at June 30th are $8,003,000 of short-term investments which will be used for acquisition or on capital expenditures on resource properties.

The companies are affected by general inflation but in the national resources industries movements in selling prices of their particular products are of far greater significance than general inflation. Prices of copper, gold, coal, oil and gas are determined by worldwide prices and particularly in the case of oil and gas by government policies. Metals prices can be very volatile in their movements.

Five Year Summary

(amounts in thousands
of Canadian dollars
unless otherwise shown)

Financial Information

Earnings	1981	1980	1979	1978	1977
Sales					
Metals	$28,997	$25,073	$11,884	$ 6,780	$ 5,906
Coal	25,265				
Petroleum and natural gas	11,004	1,361	1,043	940	692
Operating income (loss):					
Metals	8,966	10,993	3,116	(417)	(1,069)
Coal	5,034				
Oil and gas	7,622	1,089	834	782	616
	21,622	12,082	3,950	365	(453)
Interest expense	4,311	356	180	15	10
General administration	3,873	1,662	633	489	539
Interest income	(2,422)	(589)	(468)	(581)	(923)
	5,762	1,429	345	(77)	(374)
Operating income*	15,860	10,653	3,605	442	(79)
Amortization	9,878	3,153	1,814	1,685	1,674
Gain on sale of investment		5,931			
Special write-down of mining assets					5,125
Income before extraordinary items and income taxes	5,982	13,431	1,791	(1,243)	(6,878)
Income taxes	1,234	4,153	505	(462)	(2,893)
Minority interests	1,985				
Extraordinary items	10,422				
Net income (loss)	$13,185	$ 9,278	$ 1,286	$ (781)	$(3,985)
Earnings per share					
Before extraordinary item	$0.64	$2.12	$0.29	$(0.18)	$(0.91)
Net income for the year	$3.04	$2.12	$0.29	$(0.18)	$(0.91)
Changes in financial position					
Sources:					
From operations (net of current taxes)	$ 9,678	$10,583	$ 3,434	$ 302	$ (253)
Share issues	34,062				
Sale of investments		8,547			
Other	(142)	291	423	856	574
Total	43,598	19,421	3,857	1,158	321
Application:					
Capital outlays					
Metal mining	6,982	4,569	1,972	612	167
Coal mining	2,984				
Exploration	2,556	1,238	1,097	748	625
Oil and gas	5,744	1,929	1,276	2,104	1,179
	18,266	7,736	4,345	3,464	1,971
Purchase of shares	15,582	5,846	2,069	68	216
Reduction in long-term debt	10,967	80	730	202	153
Total	44,815	13,662	7,144	3,734	2,340
Increase (decrease) in working capital during the period	$ (1,217)	$ 5,759	$(3,287)	$(2,576)	$(2,019)

* Before provisions and taxes, and including pre-acquisition income of $6,106,000 in 1981

Financial Information	1981	1980	1979	1978	1977
Financial Position					
Total assets	$138,412	$48,737	$36,049	$33,278	$34,087
Working capital	8,537	9,754	3,995	7,282	9,858
Long-term debt	18,646	760	3,373	571	169
Shareholders' equity	65,577	38,029	28,751	27,465	28,246
Per share	$12.02	$8.71	$6.58	$6.29	$6.47
Share prices (Canadian $) — high	$20.375	$18.50	$12.50	$7.75	$4.75
— low	$7.00	$7.25	$5.00	$3.40	$2.90

Operating Information	1981	1980	1979	1978	1977
Metal Mining					
Sales					
Pounds copper — in thousands	6,844	9,694	6,934	6,955	6,386
Average copper price — per lb.	102.2¢	115.0¢	87.8¢	60.8¢	64.5¢
Ounces gold — in thousands	30	26	21	13	13
Average gold price — per. oz.	$703	$500	$259	$183	$134
Production					
Tons milled — in thousands	434	480	326	244	288
Returnable copper lbs. — in thousands	6,316	9,261	7,943	6,213	7,989
Returnable gold ozs. — in thousands	30	26	21	17	14
Oil and Gas Operations					
Production — before royalties					
Crude oil & natural gas liquids —					
bbls. — Canada	102,648	7,692	2,818	4,726	263
— United States	148,237	6,963	5,759	2,542	—
Natural gas — mcf — Canada	1,396,527	657,000	795,000	776,000	350,000
— United States	751,352	35,000	14,000	—	—

Summary of American Stock Exchange Prices

(U.S. dollars)	Common Shares	
Quarter Ending	High	Low
September 30, 1979	10-⅝	5-½
December 31, 1979	10-⅞	6-⅞
March 31, 1980	14-¾	5-⅝
June 30, 1980	12-¾	6-½
September 30, 1980	15-⅞	12
December 31, 1980	15-⅞	9-⅞
March 31, 1981	17	10
June 30, 1981	17-¼	10
September 30, 1981	11-½	5-¾

In March 1975, all common shares were reclassified into Class A shares with the right to convert on a share-for-share basis to Class B shares. Comparatively few shares were converted. Class B shares are not traded on the American Stock Exchange. In July 1980, Class A and B shares were re-classified into common shares which trade on the Montreal, Toronto and American Stock Exchanges. (See Note 14 to the financial statements.) Share prices prior to that date refer to prices for Class A shares. Class B shares were not traded on the American Stock Exchange but were converted into Class A shares on a share for share basis.

Consolidated Balance Sheets

(in thousands of Canadian dollars)
as at June 30

Assets	1981	1980
Current assets:		
Cash and short-term investments	$ 8,003	$ 1,385
Receivables	11,707	3,539
Inventories (note 7)	7,368	5,233
Supplies, deposits and prepaid expenses (note 8)	5,258	5,502
Total current assets	32,336	15,659
Investments (note 9)	12,323	8,657
Natural resource properties (note 6(a)):		
Metal mining operations	15,234	11,599
Coal mining operations	17,150	
Exploration expenditures (note 10)	9,076	6,217
Petroleum and natural gas operations (note 1(a))	51,521	6,455
	92,981	24,271
Other	772	150
	$138,412	$48,737

Auditors' Report
To the Shareholders of
Campbell Resources Inc.
(No Personal Liability):

We have examined the consolidated balance sheets of Campbell Resources Inc. (No Personal Liability) as at June 30, 1981 and 1980 and the consolidated statements of income, contributed surplus, retained earnings and changes in financial position for the three years ended June 30, 1981 and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us, and as shown by the books of the company, these consolidated financial statements are drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at June 30, 1981 and 1980 and the results of its operations and the changes in its financial position for the three years ended June 30, 1981 in accordance with accounting principles generally accepted in Canada consistently applied after giving retroactive effect to the changes, with which we concur, in the bases of accounting for petroleum and natural gas operations as described in note 5 to the consolidated financial statements.

Toronto, Canada,
November 13, 1981.

Arthur Young, Clarkson, Gordon & Co.
Chartered Accountants

Liabilities and Shareholders' Equity	**1981**	1980
Current liabilities:		
Bank indebtedness (note 11)	**$ 3,041**	$ 466
Accounts payable and accrued liabilities (note 12)	**16,790**	5,359
Current portion of long-term debt	**3,416**	80
Income taxes and mining duties payable	**552**	
Total current liabilities	**23,799**	5,905
Long-term debt (note 13)	**18,646**	760
Deferred income taxes and mining duties (note 16(c))	**5,386**	4,043
Minority interests	**25,004**	
Commitments and contingencies (notes 8, 10 and 17)		
Shareholders' equity (note 14):		
Capital stock —		
Common shares	**6,298**	
Class A and B shares		4,483
Contributed surplus	**33,477**	8,622
	39,775	13,105
Retained earnings	**38,109**	24,924
	77,884	38,029
Less the company's pro rata interest in its own shares held by Camchib Resources Inc. (notes 2(b) and 14(a))	**12,307**	
Total shareholders' equity	**65,577**	38,029
	$138,412	$48,737

The company follows the full cost method of accounting for petroleum and natural gas operations.

On behalf of the Board

Ned Goodman, Director

Richard L. Lister, Director

See accompanying notes

Consolidated Statement of Income

(in thousands of Canadian dollars except for per share information)

Campbell Resources Inc.
(No Personal Liability)

Year ended June 30	**1981**	1980	1979
Revenue:			
Metals (note 8)	**$28,997**	$25,073	$11,884
Coal	**25,265**		
Petroleum and natural gas	**11,004**	1,361	1,043
Interest and other income	**2,422**	589	468
	67,688	27,023	13,395
Operating expenses:			
Metal mining	**20,031**	14,080	8,768
Coal mining	**20,231**		
Petroleum and natural gas	**3,382**	272	209
General administration (note 18(b))	**3,873**	1,662	633
Interest — long-term debt	**2,816**	308	88
— other	**1,495**	48	92
	51,828	16,370	9,790
Operating income before the undernoted items	**15,860**	10,653	3,605
Depreciation, depletion and amortization:			
Metal mining	**3,385**	2,171	1,369
Coal mining	**2,736**		
Exploration expenditures written off	**627**	369	89
Petroleum and natural gas	**3,130**	613	356
	9,878	3,153	1,814
Income before the undernoted items	**5,982**	7,500	1,791
Gain on sale of investment in Peyto Oils Ltd.		5,931	
	5,982	13,431	1,791
Income taxes and mining duties (note 16)	**1,234**	4,153	505
	4,748	9,278	1,286
Minority interests and pre-acquisition earnings (note 1(a))	**1,985**		
Income before extraordinary item	**2,763**	9,278	1,286
Extraordinary item:			
Gain arising from issuances of share capital by majority-owned companies (note 3(c))	**10,422**		
Net income for the year	**$13,185**	$ 9,278	$ 1,286
Earnings per share (note 15):			
Before extraordinary item	**$0.64**	$2.12	$0.29
Net income for the year	**$3.04**	$2.12	$0.29

See accompanying notes

Consolidated Statement of Contributed Surplus and Retained Earnings

(in thousands of Canadian dollars)

Campbell Resources Inc.
(No Personal Liability)

Year ended June 30	1981	1980	1979
Contributed Surplus			
Balance, beginning of year	$ 8,622	$ 8,622	$ 8,622
Excess of amounts received for, or ascribed to, issues of common shares over the par value thereof (note 14(a))	24,855		
Balance, end of year	$33,477	$ 8,622	$ 8,622
Retained Earnings			
Balance, beginning of year:			
As previously reported	$25,108	$15,646	$14,360
Adjustment arising from changes in the bases of accounting for petroleum and natural gas operations (note 5)	184		
As restated	24,924		
Net income for the year	13,185	9,278	1,286
Balance, end of year	$38,109	$24,924	$15,646

See accompanying notes

Consolidated Statement of Changes in Financial Position

(in thousands of Canadian dollars)

Campbell Resources Inc.
(No Personal Liability)

Year ended June 30	1981	1980	1979
Source of funds:			
Operations —			
Operating income before depreciation, depletion and amortization	$15,860	$10,653	$ 3,605
Deduct:			
Pre-acquisition operating income of subsidiaries before non-cash charges	(6,106)		
Gains on sales of fixed assets		(70)	(171)
Current income taxes and mining duties	(76)		
Funds from operations	9,678	10,583	3,434
Issuance of shares by majority-owned companies	20,062		
Sale of 800,000 treasury shares to Camchib Resources Inc.	14,000		
Proceeds on sale of shares of Peyto Oils Ltd.		11,225	
Less repayment of related bank loan		(2,678)	
Other	(142)	291	423
Total funds provided	43,598	19,421	3,857
Application of funds:			
Expenditures on natural resource properties —			
Metal mining	6,982	4,569	1,972
Coal mining	2,984		
Exploration	2,556	1,238	1,097
Petroleum and natural gas operations	5,744	1,929	1,276
	18,266	7,736	4,345
Purchases of shares in and advances to —			
United Asbestos Inc.	9,405		
Skye Resources Ltd.		4,678	
Coal Corporation of America		716	
Peyto Oils Ltd.			5,294
Less bank loan to finance purchase of shares			(3,347)
Other (net)	370	452	122
	9,775	5,846	2,069
Purchase of shares of majority-owned companies	5,929		
Less working capital acquired	(500)		
Redemption of preferred shares by majority-owned company	378		
Reduction in long-term debt	10,967	80	730
Total funds applied	44,815	13,662	7,144
Increase (decrease) in working capital during the year	$ (1,217)	$ 5,759	$ (3,287)

See accompanying notes

Year ended June 30	1981	1980	1979
Changes in Components of Working Capital:			
Increase (decrease) in current assets —			
Cash and short-term investments	$ 6,618	$ 549	$ (3,173)
Receivables	8,168	1,726	486
Inventories	2,135	1,312	1,528
Supplies, deposits and prepaid expenses	(244)	4,042	(24)
	16,677	7,629	(1,183)
Increase (decrease) in current liabilities —			
Bank indebtedness	2,575	466	
Accounts payable and accrued liabilities	11,431	1,993	1,435
Current portion of long-term debt	3,336	(589)	669
Income taxes and mining duties payable	552		
	17,894	1,870	2,104
Increase (decrease) in working capital during the year	(1,217)	5,759	(3,287)
Working capital, beginning of year	9,754	3,995	7,282
Working capital, end of year	$ 8,537	$ 9,754	$ 3,995

See accompanying notes

(stated in Canadian dollars)

1. Accounting policies

The following is a summary of the significant accounting policies followed in the preparation of the consolidated financial statements. The policies are in accordance with accounting principles generally accepted in Canada which, except as described in note 19, conform in all material respects with accounting principles generally accepted in the United States:

(a) Basis of consolidation and accounting for investments —
The accompanying financial statements consolidate the accounts of Campbell Resources Inc. (No Personal Liability) ("Campbell" or "the company") and the following companies in which majority share ownership is held:

	Effective % ownership at June 30, 1981
Camchib Resources Inc. ("Camchib")	78.7%(i)
Skye Resources Ltd. ("Skye")	53.7
Inverness Petroleum Ltd. ("Inverness")	58.5(ii)
Coal Corporation of America ("Coal Corporation")	52.8
Shaker Coal Company, Inc. ("Shaker")	52.8(iii)
CCH Minerals Ltd.	100.0

(i) assuming conversion of special shares to common shares
(ii) including 18.8% held through Skye
(iii) held through Coal Corporation

The company acquired majority share ownership in Camchib (formerly C.M. & S. Mines Inc.) effective January 1, 1981 pursuant to the reorganization described in note 2(a). Prior to fiscal 1981, the company had effective control but not majority share ownership of Camchib and accordingly accounted for its investment therein on the equity basis. The operating results of Camchib for the year ended June 30, 1981, as well as those of Coal Corporation and CCH Minerals Ltd. for that year, have been fully consolidated in the statement of income with appropriate deductions for minority interests and pre-acquisition earnings. The 1981 pre-acquisition revenues and expenses of these companies are not material. Control of Coal Corporation was acquired on October 1, 1980. CCH Minerals Ltd. was formed to hold the company's interests in Canadian mining exploration ventures outside the Province of Quebec, coincident with the reorganization described in note 2(a).

The assets and liabilities of Skye, control of which the company was obligated to acquire on June 30, 1981 as described in note 3(b), have been consolidated as at that date, with Skye's operating results for the year then ended fully consolidated in the statement of income with appropriate deductions for minority interests and pre-acquisition earnings attributable to the Skye shares acquired. This presentation has been followed in the consolidated statement of income for fiscal 1981 in order to present coal mining and petroleum and natural gas revenues and expenses on a basis which is more indicative of the current status of these business segments, thereby facilitating future comparison with subsequent years. Revenues and expenses of Skye, including all operating costs, provisions and income taxes, included in the consolidated statement of income for fiscal 1981 totalled $20,881,000 and $18,469,000 respectively.

As described in note 3(a), Inverness (formerly CCH Resources Ltd.) was a 98% owned subsidiary prior to July 2, 1980 which interest was reduced to 53.0% on that date and, as a result of a public offering by Inverness, to 39.7% in December 1980. Control of Inverness was later reacquired by virtue of the company's acquisition of control of Skye (see note 3(b)) which owns 35% of Inverness' shares; accordingly, the accounts of Inverness are included in the accompanying financial statements on a fully consolidated basis from January 1, 1977, the approximate date on which Inverness commenced operations.

It is the company's policy to account for investments in companies in which it has significant influence on the equity basis.

Other investments are carried at cost which, in the case of short-term investments, approximates market value.

(b) Valuation of inventories —
Metals in process and coal inventories are valued at the lower of FIFO cost and net realizable value. The cost of metals in process includes direct labour, supplies consumed and the proportion of administrative expenses (approximately $251,000 and $151,000 at June 30, 1981 and 1980 respectively) that relates to mining operations, but does not include depreciation, depletion and amortization of related mining assets. The cost of coal inventories includes direct labour and supplies consumed.

(c) Depreciation, depletion and amortization —
(i) Metal mining — Depletion is provided on metal mining properties at a rate per ton milled which is determined by dividing the undepleted cost of each property by the economically recoverable proven and probable ore reserves related to that property.

Depreciation of mine buildings and equipment is provided largely on the straight-line basis at a 6% annual rate.

Development costs are deferred and charged against income at a rate per ton milled, computed on a mine-by-mine basis, by dividing the unamortized development costs of each mine by the proven and probable economically recoverable ore reserve tonnage applicable to that mine.

(ii) Coal mining — Expenditures for coal leases and related development costs are capitalized and amortized using the units-of-production method based upon estimated recoverable tonnage.

Depreciation of coal mining property, plant and equipment is provided largely on the straight-line basis at rates ranging from 5% to 33⅓%.

The value ascribed to Coal Corporation's coal sales contract (see note 4) is being amortized on the basis of contracted sales tonnage over the life of the contract which expires in 1989.

(iii) Exploration — Mining exploration expenditures are deferred by specific project or project area and are written off if the project or project area is abandoned.

(iv) Petroleum and natural gas — The full cost method is followed in accounting for petroleum and natural gas operations (see note 5). Under this method all costs related to the acquisition of, exploration for and development of petroleum and natural gas reserves are accumulated on a country-by-country basis and are amortized by the units-of-production method based on estimated proved developed petroleum and natural gas reserves in each country or are written off to earnings if exploration activities in a country are determined to be unsuccessful. Costs of acquiring and evaluating significant unproved properties are excluded from capitalized costs to be amortized until it is determined whether or not proved reserves are attributable to the properties or impairment in value has occurred. No gains or losses are recognized upon the sale or disposition of properties held for exploration and development purposes except for transactions which result in major disposals of petroleum and natural gas reserves.

Depreciation of production equipment is provided on a units-of-production method based on estimated proved developed petroleum and natural gas reserves in each country. Depreciation of other equipment is provided using the straight-line method at rates which are estimated to amortize the cost of the assets over their useful lives.

(d) Recognition of metals revenue —
The sale of metals processed through the flotation circuit at Chibougamau is recorded in income three months after arrival of the concentrate at the custom smelter, which is the normal time period required to smelt, refine and sell the metals contained in the concentrate. The sale of metals produced through the cyanide circuit, all of which are precious metals, is recorded in income when the metals are poured at the main mine site.

(e) Income taxes and mining duties —
The tax allocation method of providing for income taxes and mining duties is followed. On this basis, taxes and duties deferred to future years as a result of timing differences between accounting income and income for tax and mining duty purposes (such differences being principally attributable to depreciation, depletion and exploration and development allowances) are recorded as deferred income taxes and deferred mining duties.

Investment tax credits are included in income in the year realized.

(f) Foreign currency translation —
Current assets and liabilities denominated in United States dollars are translated into Canadian dollars at the rate of exchange prevailing at the year-end. All other assets and liabilities are translated at historical rates of exchange. Revenues and expenses are translated into Canadian dollars at the average exchange rate in effect during the year, except for depreciation, depletion and amortization which are translated at the historical rates applicable to the related assets. The net gain or loss arising from translation is included in the results of operations for the year in which the gain or loss arises.

2. Reorganization of metal mining operations
(a) Pursuant to a reorganization agreement dated February 24, 1981 and effective January 1, 1981, the company's Quebec mining assets and business were sold

to a newly-incorporated, wholly-owned subsidiary, the consideration being the assumption of the company's Quebec mining liabilities and the issue of shares from the subsidiary's treasury.

On March 14, 1981, and also effective January 1, 1981, the subsidiary and Camchib, the assets and liabilities of which were not material, were amalgamated under the name Camchib Resources Inc. Upon the amalgamation, the company received 5,350,000 special shares and 467,132 common shares of the amalgamated company, with the other former shareholders of Camchib receiving 532,788 common shares. The common and special shares are identical in all respects except that the special shares carry no votes with respect to the election of directors and are convertible into common shares on a one-for-one basis.

Since the company owned all the outstanding shares of the subsidiary and 46.7% of the shares of Camchib before the amalgamation, and held 91.6% of the total of all common and special shares of the amalgamated company outstanding immediately after the amalgamation, the amalgamation has been deemed for accounting purposes to be a reorganization. As a consequence, the assets and liabilities brought into the amalgamated company at January 1, 1981 are included in these consolidated financial statements at the amounts at which they were carried in the accounts of the company and Camchib prior to the reorganization. For this reason, and as the company's Quebec mining business was operated after the reorganization by Camchib (in which the company has majority share ownership), net income for the year ended June 30, 1981 would not have been materially different from that shown in the accompanying consolidated statement of income had the reorganization taken place at the beginning of fiscal 1981.

(b) The assets of Camchib include 1,072,010 common shares of the company (17.0% at June 30, 1981) acquired at a cost of $14,575,000. The company's pro rata interest in this investment, together with $1,068,000 assigned to the investment upon purchase of Camchib shares by Campbell, is shown in the consolidated balance sheet at June 30, 1981 as a reduction in shareholders' equity.

(c) Subsequent to the aforementioned reorganization —
(i) The company purchased 75,000 additional common shares of Camchib in the open market for $562,000; and

(ii) Camchib issued 1,000,000 common shares from treasury at $7.50 per share and 500,000 warrants to purchase common shares at $7.50 per share to December 31, 1983 for a net cash consideration of $6,726,000 pursuant to a public offering made in the Province of Quebec. In addition, 140,000 common shares valued at $1,139,800 were issued to outsiders from Camchib's treasury to acquire an additional interest in a mineral exploration joint venture and certain mining claims.

As a result of these transactions, the company's interest in Camchib was reduced to 25.3% of the common shares and 78.7% of the combined number of common and special shares outstanding at June 30, 1981. These interests would be reduced to 13.7% and 63.3%, respectively, if (i) all of the aforementioned warrants to purchase Camchib common shares were exercised; (ii) all of Camchib's convertible debentures were converted into common shares at the conversion rate in effect to November 15, 1984 (see note 13(b)); and (iii) 122,000 additional common shares were issued by Camchib pursuant to agreements relating to the acquisition of interests in mineral resource properties as described in note 10(b).

3. Reorganization of petroleum and natural gas operations

(a) On July 2, 1980, the company's then 98% owned subsidiary, Inverness, acquired all the outstanding shares of Skye Resources (Alberta) Ltd., a subsidiary of Skye, for $24,428,000. The consideration paid to Skye consisted of shares of Inverness valued at $20,160,000, cash of $4,000,000 and a note payable on August 2, 1980 for $268,000.

The acquisition of Skye Resources (Alberta) Ltd. was accounted for by the purchase method with the assets acquired and values assigned thereto being as follows:

Property and equipment at net book value	$ 6,233,514
Increase to fair value	22,464,729
	28,698,243
Working capital deficiency	(712,277)
Liabilities assumed	(3,558,462)
Total consideration	$24,427,504

Prior to the acquisition, the company increased its shareholdings in Inverness by the conversion of intercompany debt amounting to $8,798,000 and by the

purchase of additional shares for cash of $4,000,000. As a result of these transactions, the share interest of the company in Inverness was reduced to 53.0% and the interest of Skye became 46.7%. Subsequently, in December 1980, the share interest of the company was further reduced to 39.7% (Skye — 35.0%) when Inverness issued to the public, common shares from its treasury for cash of $13,400,000 together with warrants entitling holders to purchase on or before December 15, 1982 a total of 480,000 common shares of Inverness at $11 per share. The exercise of these warrants, together with the exercise of options held by Inverness employees on 163,000 of its shares, would reduce the company's interest in Inverness to 35.7% and that of Skye to 31.5%.

(b) During the first quarter of fiscal 1981 the company increased its common share ownership in Skye from 17.4% to 19.1% (480,000 shares) at a cash cost of $817,000. On July 13, 1981, through a share exchange offer, the company acquired an additional 900,000 common shares of Skye in exchange for the issue from treasury of 1,012,246 of its own common shares and cash of $5,112, thereby increasing its common share interest in Skye to 53.7%. The company's investment in Skye, including the acquisition of shares which the company was obligated to acquire at June 30, 1981, through the share exchange offer, have been accounted for in the consolidated financial statements for the year ended June 30, 1981 by the purchase method as follows:

Proportionate interest in book value of Skye's net assets obtained through the above acquisitions	$10,904,000
Excess of cost of investment over underlying book value of net assets acquired, allocated largely to natural resource properties	7,517,000
Total consideration, including 1,012,246 common shares of Campbell valued at $12.50 per share and offering expenses of $268,000	$18,421,000

The accounts of Skye and Inverness have been included in these financial statements on the basis of accounting described in note 1(a). Had the company held its 53.7% interest in Skye throughout fiscal 1981, the interest of minority shareholders in the company's consolidated earnings for that year would have been reduced by $944,000 and depreciation, depletion and amortization would have been increased by $415,000. This change in net income of $529,000, together with the effect of the issue of 1,012,246 common shares on the share exchange described above, would have reduced consolidated earnings before extraordinary items by 2¢ per share from the amounts reported for fiscal 1981.

As stated in note 23(a), it is proposed to amalgamate Skye and a wholly-owned subsidiary of Campbell.

(c) The issues of shares by Inverness and Camchib, as described in (a) above and in note 2(c)(ii) respectively, were effected at amounts per share which exceeded the per share carrying value of Campbell's investment in those companies and as a result the company's equity therein was increased by $9,647,000, net of related deferred income taxes of $585,000. As a further result of the public issue by Inverness, the company's equity in Skye (then 19.1% owned) increased by $775,000. These net increases are included in the aggregate ($10,422,000) as an extraordinary income item in the accompanying consolidated statement of income.

4. Coal Corporation of America

In April, 1980, the company acquired 225,000 common shares of Coal Corporation for $120,000 and effective October 1, 1980 converted a promissory note of $478,000 into an additional 1,000,000 common shares, for a total of 1,225,000 (52.8%) of Coal Corporation's issued common shares.

These share acquisitions have been accounted for by the purchase method as follows:

Coal Corporation's net assets:	
Current assets	$1,843,000
Fixed and other assets, including coal sales contracts of $4,462,011	7,624,000
	9,467,000
Current liabilities	3,952,000
Long-term debt	4,502,000
Preferred shares	351,000
	8,805,000
Net assets attributable to common shares	662,000
Campbell's interest therein (52.8%)	349,000
Excess of cost of investment over underlying book value of assets acquired, allocated to coal sales contract	249,000
Cost of investment	$ 598,000

Subsequent to June 30, 1981, the company acquired an additional 631,000 common shares in exchange for 94,650 of its own common shares issued from treasury and thereby increased its holdings to 1,856,000 (80.0%) of Coal Corporation's issued common shares.

5. Changes in the bases of accounting for petroleum and natural gas operations

Prior to July 1, 1980, Inverness followed a form of full cost accounting whereby (i) exploration and development costs were capitalized under one cost centre and (ii) depreciation on production equipment was computed using the straight-line method at rates designed to amortize the cost of the assets over their estimated useful lives.

Effective July 1, 1980 Inverness retroactively adopted the form of full cost accounting and the method of computing depreciation on production equipment described in note 1(c)(iv). These changes in accounting which were applied retroactively resulted in additional depreciation and depletion charges and a reduction in the company's consolidated net income of $184,000 (5¢ per share) in fiscal 1980 with no effect on earnings in years prior to fiscal 1980. Had Inverness not adopted these accounting changes, depreciation and depletion expense in fiscal 1981 would have been $76,000 less than reported and net income would have been greater by $41,000 (1¢ per share).

6. Segmented information

The company and its majority-owned companies are engaged in four lines of business activity, as follows:

Metal mining—
Mining and milling of base and precious metals in Quebec, Canada.

Coal mining —
Coal mining in the United States, commencing in fiscal 1981.

Exploration —
Managing of and participating in mining exploration ventures in Canada, the United States and Mexico.

Petroleum and natural gas —
Production of and exploration for petroleum and natural gas in Western Canada and the United States.

(a) Total assets summarized by business segments were as follows:

	June 30		
	1981	1980	1979
	(in thousands)		
Metal mining, at cost —			
Buildings and equipment	$ 23,806	$20,116	$18,179
Properties	5,797	5,797	5,797
Deferred development costs	24,777	20,667	19,312
	54,380	46,580	43,288
Less accumulated depreciation, depletion and amortization	39,146	34,981	33,990
	15,234	11,599	9,298
Current assets	11,046	13,680	6,444
	26,280	25,279	15,742
Coal mining, at cost —			
Land, buildings and equipment	13,288		
Property leases	84		
	13,372		
Less accumulated depreciation and depletion	453		
	12,919		
Coal sales contract, net of accumulated amortization	4,231		
	17,150		
Current assets	7,016		
	24,166		
Exploration, at cost —			
Equipment	233	154	120
Property costs and deferred expenditures	10,922	7,471	6,202
	11,155	7,625	6,322
Less accumulated write-offs	2,079	1,408	1,071
	9,076	6,217	5,251
Investments	1,803	1,158	965
Current assets	1,736	10	
	12,615	7,385	6,216
Petroleum and natural gas, at cost —			
Equipment and lease rights including exploration and development costs related thereto	55,021	8,074	5,862
Less accumulated depreciation and depletion	3,500	1,619	723
	51,521	6,455	5,139
Current assets	9,249	404	349
	60,770	6,859	5,488
Assets not allocated to business segments —			
Investments	10,520	7,499	7,140
Other assets	4,061	1,715	1,463
	14,581	9,214	8,603
Total assets	$138,412	$48,737	$36,049

(b) Capital expenditures by business segment are summarized as follows:

	Year ended June 30		
	1981	1980	1979
	(in thousands)		
Metal mining —			
Properties, buildings and equipment	$ 3,718	$2,368	$ 446
Deferred development costs	3,264	2,201	1,526
	6,982	4,569	1,972
Coal mining —			
Land, buildings and equipment	2,984		
Exploration —			
Properties and equipment	2,556	1,238	1,097
Petroleum and natural gas —			
Equipment and lease rights including exploration and development costs related thereto	5,744	1,929	1,276
Total capital expenditures	$18,266	$7,736	$4,345

(c) Revenue and operating profit by segment for the three years ended June 30, 1981 were as follows:

	Total revenue			Operating profit (loss)		
	1981	1980	1979	1981	1980	1979
				(in thousands)		
Metal mining	$28,997	$25,073	$11,884	$ 5,581	$8,822	$1,747
Coal mining	25,265			2,298		
Exploration				(627)	(369)	(89)
Petroleum and natural gas	11,004	1,361	1,043	4,492	476	478
	$65,266	$26,434	$12,927	11,744	8,929	2,136
General administration and interest (net)				(5,762)	(1,429)	(345)
Gain on sale of investment					5,931	
Income taxes and mining duties				(1,234)	(4,153)	(505)
Minority interests in and pre-acquisition earnings of majority-owned companies —						
Camchib				(35)		
Skye				(2,213)		
Inverness				2		
Coal Corporation				261		
Extraordinary item				10,422		
Net income				$13,185	$9,278	$1,286

(d) Depreciation, depletion and amortization charges by business segment are as follows:

	Year ended June 30		
	1981	1980	1979
	(in thousands)		
Metal mining —			
Depreciation of properties, buildings and equipment	$ 1,156	$ 893	$ 697
Amortization of deferred development costs	2,229	1,278	672
	3,385	2,171	1,369
Coal mining —			
Depreciation and depletion of buildings, equipment and property leases	2,343		
Amortization of coal sales contract	393		
	2,736		
Exploration —			
Write-off of exploration expenditures	627	369	89
Petroleum and natural gas —			
Depreciation of production and other equipment	624	59	47
Amortization of lease rights and related exploration and development costs	2,506	554	309
	3,130	613	356
Total depreciation, depletion and amortization	$ 9,878	$3,153	$1,814

(e) The geographic distribution of revenue, operating profit and assets is shown below:

	Revenue			Operating profit			Assets at		
	Year ended June 30			Year ended June 30			June 30		
	1981	1980	1979	1981	1980	1979	1981	1980	1979
							(in thousands)		
Canada	$31,849	$26,199	$12,839	$ 6,233	$9,049	$2,123	$ 73,088	$38,806	$26,670
United States	33,417	235	88	5,511	(120)	13	53,001	1,274	1,274
	$65,266	$26,434	$12,927	$11,744	$8,929	$2,136	126,089	40,080	27,944
Investments							12,323	8,657	8,105
Total assets							$138,412	$48,737	$36,049

7. Inventories

Inventories consist of:

	June 30	
	1981	1980
	(in thousands)	
Metals in process	$5,688	$5,233
Coal	1,680	
	$7,368	$5,233
The estimated net realizable value of metals in process inventory was as follows:	$5,850	$7,374

8. Deposits on gold future contracts

Camchib follows the policy of selling a portion of its gold production forward one year as protection against a possible decline in gold prices. Included in "Supplies, deposits and prepaid expenses" in the consolidated balance sheet at June 30, 1981 is $351,000 (1980 — $3,840,000) representing deposits on contracts covering the sale of approximately 16,000 ounces (1980 — 19,000 ounces) of gold at an approximate average price of $561 U.S. per ounce (1980 — $550 U.S.). These deposits are recoverable on the closing of the related contracts. In fiscal 1981, contracts entered into to protect 6,000 ounces of the subsequent year's gold production were bought back resulting in a gain of $1,606,000 which amount is included in "Metals" revenue in the accompanying consolidated statement of income.

9. Investments

Investments consist of the following:

	Interest	Carrying value	
		June 30	
	%	1981	1980
		(in thousands)	
Skye Resources Ltd. (notes 1(a) and 3(b)) — 425,100 shares (quoted market value — $5,526,000)	17.4%		$4,678
Camchib Resources Inc. (notes 1(a) and 2) — 387,732 shares after giving effect to 1 for 5 consolidation in October, 1980 (quoted market value — $1,939,000)	42.1%		1,212
10% convertible income debentures due August 1, 1984			397
Coal Corporation of America (notes 1(a) and 4) — 225,000 shares (no quoted market value)	21.2%		120
Promissory note and advance			596
Cia. Minera Trans-Rio, S.A. de C.V. ("Trans-Rio") (no quoted market value) —			
29,000 shares at June 30, 1981	29.0%	$ 77	
24,500 shares at June 30, 1980	24.5%		65
Advances		1,519	1,007
United Asbestos Inc. — 1,042,100 shares (quoted market value — $10,942,000) (see note 23(c))	14.7%	9,405	
Others (unlisted)		1,322	582
		$12,323	$8,657

The company and Camchib each owned 24,500 common shares (24.5%) of Trans-Rio at the effective date of the reorganization described in note 2. In February 1981, two Mexican companies exercised their option to acquire 10,000 Trans-Rio common shares from each of the company and Camchib. Proceeds of $223,000 received on the sales have been applied in reduction of

the carrying value of the investment. The 29,000 common shares of Trans-Rio owned at June 30, 1981 are the combined holdings of the company and Camchib after the exercise of the option described above. The 24,500 common shares owned at June 30, 1980 are the holdings of the company only.

10. Mining exploration

(a) In conjunction with the public share issue made by Camchib as described in note 2(c)(ii), a partnership (La Première Société en Commandite Camchib) established to participate with Camchib as a joint venturer in a mineral exploration program, issued limited partnership interests for net cash proceeds of $6,651,000.

Under the joint venture agreement, the partnership is to expend substantially all of the net proceeds from the issue of limited partnership interests on mining exploration programs on Camchib properties in return for which it will earn varying interests in the net profits, if any, derived from the properties after recovery of exploration expenditures made, or deemed to have been made, by the joint venturers. As general partner in the partnership, Camchib manages the partnership and the joint venture and is committed to spend $1,476,000 of its own funds in fiscal 1982 on the joint venture's exploration programs.

During fiscal 1981, $1,206,000 was spent by the partnership on the exploration programs.

(b) Camchib has entered into agreements to acquire interests in several mineral resource properties by means of various forms of mineral resource conveyance. Potential future issues of a further 122,000 Camchib common shares may occur in certain circumstances under the terms of these agreements.

11. Bank indebtedness

Included in bank indebtedness at June 30, 1981 is a $1,000,000 demand loan owing by Camchib and bearing interest at the Canadian prime rate plus ¾%. The loan is secured by Camchib's investment in Campbell shares, metals in process and receivables.

At June 30, 1981, the company and majority-owned companies had unused lines of credit of $4,547,000. Standby fees of ½% to 1½% per annum are payable on these lines of credit. The unused lines of credit may be withdrawn in the event of a material adverse change in the financial condition of the company, an unacceptable change in ownership and legal complications detrimental to the affairs of the company.

12. Accounts payable and accrued liabilities

This consists of the following:

	June 30 1981	June 30 1980
	(in thousands)	
Trade accounts payable	$12,469	$3,193
Accrued salaries and benefits	1,668	1,422
Other accrued liabilities	2,653	744
	$16,790	$5,359

13. Long-term debt

Long-term debt consists of the following:

	June 30 1981	June 30 1980
	(in thousands)	
The company —		
U.S. dollar term bank loan ($2,540,000 U.S.)	$ 2,968	
Majority-owned companies —		
10% convertible secured debentures Series A due November 15, 1990	6,000	
Other loans	13,094	$ 840
	22,062	840
Less current portion of long-term debt	3,416	80
	$18,646	$ 760

(a) U.S. dollar term bank loan —
The term loan bears interest at 1% above the bank's U.S. prime lending rate. Proceeds of the loan were advanced to Coal Corporation and used in the acquisition of Shaker Coal Company, Inc., now a wholly-owned subsidiary of Coal Corporation. The company has pledged 425,100 of its shares of Skye as collateral security against its bank indebtedness. Subsequent to June 30, 1981, the loan was renegotiated and became a direct liability of Coal Corporation, guaranteed by the company. Under the renegotiated terms, the interest rate is U.S. prime plus ¼% and the loan is repayable in ten equal semi-annual instalments commencing in January, 1982; accordingly, U.S. $254,000 of the total loan was included in current liabilities at June 30, 1981.

(b) 10% convertible secured debentures Series A —
These debentures were issued by Camchib on December 11, 1980. Camchib's shares of Campbell have been pledged as collateral security for the debentures, such pledge being subordinate to that described in note 11. The debentures are convertible at the option of the holder into common shares of Camchib at $5.00 per

share to November 15, 1984, $6.00 per share to November 15, 1987 and $7.00 per share thereafter to maturity. The debentures are redeemable under certain conditions at the option of Camchib after November 15, 1982.

Under the terms of the related trust indenture, Camchib is required to establish a sinking fund for the retirement of the debentures by depositing with a trustee in each of the years 1985 through 1989 an amount equal to $600,000 less 10% of the principal amount of debentures previously redeemed or converted.

(c) Other loans —
Other loans include the following:

	June 30 1981	June 30 1980
	(in thousands)	
U.S. dollar bank loans owing by Skye ($6,212,000 U.S.)	$ 7,132	
5% loan from the Province of Quebec, owing by Camchib	797	$840
12% promissory notes owing by Coal Corporation to former shareholders of Shaker ($1,074,000 U.S.)	1,280	
Instalment equipment loans owing by Shaker at interest rates ranging from 13% to 26%, secured by the related equipment ($2,454,000 U.S.)	2,925	
Lease obligations and other loans at interest rates ranging from 10% to 14% ($813,000 U.S.)	960	
	$13,094	$840

Skye's U.S. dollar bank loans bear interest at 1% to 1½% above prime lending rates. The loans are secured by Skye's interest in certain petroleum and natural gas properties, by an assignment of receivables and inventories and by certain coal properties and equipment.

The 5% loan from the Province of Quebec is repayable based on profits (as defined in the loan agreement) earned from Camchib's Cedar Bay Mine. At June 30, 1981, $179,000 included in current liabilities, was repayable under this provision. This liability was assumed by Camchib from the company effective January 1, 1981. The company remains contingently liable, however, for repayment of the loan.

The estimated principal repayments of other loans (excluding the loan from the Province of Quebec) for the next five fiscal years are as follows:

1982	$2,932,000
1983	1,459,000
1984	654,000
1985	6,778,000
1986	29,000

14. Capital stock

(a) Authorized and issued share capital —
The issued and outstanding shares of the company during the year ended June 30, 1981 and the three months ended September 30, 1981 were as follows:

	Number of shares	Par value
Issued and outstanding on June 30, 1980	4,483,017	$4,483,017
Issued to Camchib for cash of $14,000,000	800,000	800,000
Issued to an employee under share option plan for cash of $16,875	2,500	2,500
Issued to shareholders of Skye in share exchange (i)	1,012,246	1,012,246
Issued and outstanding at June 30, 1981	6,297,763	6,297,763
Issued to shareholders of Coal Corp. in share exchange	94,650	94,650
Issued and outstanding at September 30, 1981	6,392,413	$6,392,413

(i) Shares issued to shareholders of Skye in the share exchange are presented as issued and outstanding at June 30, 1981 as the company was obligated to issue such shares on that date.

There was no change in the number of issued and outstanding shares of the company in fiscal 1980 or 1979.

At a special general meeting of shareholders held on July 14, 1980, resolutions were approved to (i) increase the company's authorized Class A shares of $1.00 par value each from 5,000,000 to 9,500,000 shares; (ii) create 5,500,000 first preferred shares of $15.00 par value each, issuable in series; and (iii) reclassify the Class A and Class B shares as common shares of $1.00 par value each.

As a consequence of the change and issues set out above the authorized and issued share capital of the company is as follows:

	Number of shares		
			June 30
	1981	1980	1979
Authorized —			
First preferred shares of $15 par value each, issuable in series	5,500,000		
Class A shares of $1 par value each		5,000,000	5,000,000
Class B shares of $1 par value each		500,000	500,000
Common shares of $1 par value each	10,000,000		
Issued and outstanding —			
Class A shares		4,428,620	4,406,383
Class B shares		54,397	76,634
Common shares	6,297,763		
Total shares issued and outstanding	6,297,763	4,483,017	4,483,017
Less the company's pro rata interest in its own shares held by Camchib (see note 2(b))	843,318		
Net shares	5,454,445	4,483,017	4,483,017

In December, 1980, the company issued 800,000 common shares from treasury to Camchib for $14,000,000 in cash of which $800,000, being the par value of the shares issued, was recorded as share capital and $13,200,000 as contributed surplus. In addition, the company issued common shares from treasury as described in (b) below and in note 3(b) pursuant to which $1,015,000 was recorded as share capital and $11,655,000 as contributed surplus.

(b) Share option plan —

In fiscal 1981, a share option plan was established for certain full-time employees and two key officers, under which options were granted for the purchase from treasury of 249,000 of the company's common shares. Such options are exercisable over the period to May, 1986. Purchase prices with respect to options outstanding at June 30, 1981 are $6.75 per share (176,500 shares), $14.50 per share (20,000 shares) and $14.75 per share (50,000 shares). During fiscal 1981, an option to purchase 2,500 shares at $6.75 per share was exercised. The company has reserved 247,500 of its unissued common shares for purposes of the plan.

15. Earnings per share

The computation of basic earnings per share is based on the weighted average number of shares outstanding during the respective years, net of the company's weighted average pro rata interest in its own shares held by Camchib as follows:

Year ended June 30	Net weighted average number of shares outstanding
1981	4,336,580
1980 and 1979	4,368,444

No dilution of earnings per share would result from the exercise of the share options described in note 14(b) or from any potential issue of equity shares by majority-owned companies, including the potential issue of common shares by Camchib on the conversion of its 10% convertible debentures described in note 13(b).

16. Income taxes and mining duties —

(a) Provisions for (recoveries of) income taxes and mining duties are as follows:

	Year ended June 30		
	1981	1980	1979
			(in thousands)
Current —			
Canada	$ 9		
United States	(329)		
	(320)		
Deferred —			
Canada	815	$ 4,153	$ 505
United States	739		
	$1,234	$ 4,153	$ 505
Components of pre-tax income —			
Canada	$4,059	$13,551	$1,770
United States	1,923	(120)	21
	$5,982	$13,431	$1,791

(b) The difference between the combined Canadian and U.S. federal, provincial and state basic statutory rates and those used in calculating income tax and mining duties expense is as follows:

	Year ended June 30		
	1981	1980	1979
Income taxes —			
Basic statutory rate (combined)	50.8%	49.3%	48.2%
Add (deduct):			
Resource allowance and depletion claimed in respect of prior periods (i)	(21.0)		
Current resource allowance	(15.4)	(7.6)	(17.8)
Current depletion	(8.7)	(4.2)	
Additional production royalties	6.6		
Exempt income (ii)		(11.1)	(1.7)
Sundry	2.2	(1.5)	(.5)
Effective rate	14.5	24.9	28.2
Mining duties			
Average rate on mining income	15.0	15.0	15.0
Investment and treatment allowances	(6.5)	(6.5)	(6.5)
Reduction for income not subject to mining taxes	(2.4)	(2.5)	(8.5)
Effective rate	6.1	6.0	
Combined income tax and mining duty rate	20.6%	30.9%	28.2%

(i) The company plans to re-file income tax returns for the years 1976 to 1979 inclusive to claim additional resource income and depletion allowances and thereby create losses for tax purposes. Such losses are deductible in 1981, giving rise to a tax reduction of $1,263,000.
(ii) Exempt income consists principally of dividends from Canadian corporations and the non-taxable portion of capital gains.

(c) Deferred taxes and duties arising from the deduction for tax purposes of amounts in excess of amounts charged in the accounts are as follows:

	Year ended June 30		
	1981	1980	1979
			(in thousands)
Depreciation	$ 125	$2,694	$(220)
Exploration, development and preproduction costs	(207)	1,203	631
Other	1,636	256	94
	$1,554	$4,153	$ 505

(d) On June 30, 1981 the company's subsidiaries had losses for tax purposes of $2,339,000 and investment tax credits and new job credits of $2,060,000 all of which is available to reduce taxes in future years. These losses and credits expire over the period to 1996. Realization of related tax benefits is dependent upon the future profitability of the subsidiaries and, accordingly, no portion of such potential benefits has been recorded in the accounts.

17. Contingencies and commitments

(a) The company is a defendant, together with other companies, in an action in the Superior Court of the Province of Quebec, claiming an injunction to restrain defendants from any further activities in certain of the areas in which they operate in the Province of Quebec and various amounts of damages, $1,540,000 in the case of the company, based on alleged environmental contamination and interference with alleged rights of the Cree Indians. The action is being contested and counsel for the company is of the opinion that the company has a valid substantive defence. Accordingly, no provision has been made in these consolidated financial statements for any liability which may arise therefrom.

(b) All of Shaker's coal production is shipped through a barge-loading facility under an agreement which expired in October 1981. The terms of this agreement specified a minimum fee per ton with adjustments related to escalations in the sales contract with the major customer described in (c) below. A dispute has arisen over the manner in which the escalations are to be computed and, as a result, only the minimum fee has been paid on all coal shipped to date. The owners of the barge-loading facility claim that additional fees of approximately $800,000 at June 30, 1981 relating to the escalations are owing for coal shipped from February 1979 through that date. Management of Coal Corporation is resisting such a claim and accordingly no provision for any additional fees has been made in these consolidated financial statements.

(c) Shaker has a long-term sales contract with a major electric utility which purchased all of Shaker's coal production in 1981. The contract, which expires in 1989, calls for the sale of 360,000 tons of coal annually at prices which are subject to escalation based upon changes in certain price indices.

18. Related party transactions

(a) Certain investment transactions, as well as certain of the gold future transactions described in note 8, were effected through an investment dealer of which a director and officer of the company is an officer and shareholder. Commissions of $92,000 and $58,000 were paid on these transactions in the years ended June 30, 1981 and 1980 respectively. Interest of $411,000 and $119,000 was earned on cash on deposit with this investment dealer in the respective periods. Included in cash and short-term investments is cash of $1,065,000 which was held by the investment dealer at June 30,1981.

In addition, the aforementioned investment dealer was a member of the banking group in the public offering made by Inverness referred to in note 3(a).

(b) In fiscal 1980, the company reimbursed out-of-pocket expenses of approximately $440,000 incurred by a Shareholders' Committee in a proxy contest between the Shareholders' Committee and the company's former directors. Members of the Shareholders' Committee were subsequently elected directors of the company. The amount reimbursed is included in general administration expense in the consolidated statement of income for the year ended June 30, 1980.

(c) At June 30, 1981, directors and officers of the company and Camchib owned beneficially, directly or indirectly, $1,990,000 principal amount of the 10% convertible secured debentures Series A of Camchib described in note 13(b).

(d) A director of Camchib is the President of a trucking company which provided transportation services to Camchib and the company. Further, the Chairman of Camchib is counsel to a law firm which provides legal services to Camchib. The following amounts charged for such services are included in the consolidated statement of income:

Year ended June 30 —	Transportation services	Legal services
1981	$1,062,000	$120,000
1980	689,000	6,000

The amount for legal services in the year ended June 30, 1981 does not include $100,000 paid by the partnership referred to in note 10(a).

19. Canadian and United States generally accepted accounting principles

Earnings for fiscal 1979 have been restated from amounts originally reported for a change in the basis of accounting for deferred mining development costs adopted in 1980. As a result of the retroactive application of the change, the investment in metal mining operations, deferred income taxes and mining duties and retained earnings at June 30, 1979 were reduced by $3,968,000, $1,499,000 and $2,469,000 respectively from amounts originally reported. Under accounting principles generally accepted in the United States, the cumulative effect of the change on the amount of retained earnings at June 30, 1979 would have been included in net income in fiscal 1980.

In addition, accounting principles generally accepted in Canada specifically require that differences resulting from transactions by a subsidiary or equity-accounted investee in its own shares, such as those described in note 3*(c)*, be included in the parent company's or investors income. There is no generally accepted method of accounting for such differences in the United States. However, the Securities and Exchange Commission ("SEC") requires that if such differences are increases, they should be recognized in the parent or investor company's accounts as additions to paid-in capital rather than as gains included in income.

The following table reconciles net income reported under Canadian generally accepted accounting principles to net income which would have been reported had accounting principles generally accepted in the United States and, in the case of transactions by a

subsidiary or investee in its own shares, requirements of the SEC, been followed:

	Years ended June 30 1981	1980	1979
(in thousands except for per share information)			
Net income for the year, as reported	$13,185	$9,278	$1,286
Add (deduct):			
Extraordinary item —			
Gain arising from issuances of share capital by majority-owned companies	(10,422)		
Restatement of amortization of deferred mining development costs net of related deferred income taxes			27
Amounts which would have been reported under accounting principles generally accepted in the United States —			
Income before cumulative effect of change in accounting principle	2,763	9,278	1,313
Cumulative effect on prior years of change in accounting basis described above, less related recovery of deferred income taxes of $1,499,000		(2,469)	
Net income for the year under U.S. generally accepted accounting principals and SEC requirements	$ 2,763	$6,809	$1,313
Income per common share:			
Income before cumulative effect of change in accounting principle	$0.64	$2.12	$0.30
Cumulative effect of change in accounting principle		(0.57)	
Net income for the year	$0.64	$1.55	$0.30

20. Capitalized costs and costs incurred in petroleum and natural gas producing activities

(a) Cumulative capital costs, together with related depreciation and depletion, incurred in petroleum and natural gas producing activities as at June 30, 1981 and 1980 and included in the consolidated balance sheets at those dates are as follows:

(b) Costs incurred, together with related depreciation, depletion and amortization, in petroleum and natural gas producing activities during each of the three years ended June 30, 1981 are set out below. The amounts for fiscal 1981 include the costs and related depreciation of Skye for the full year

	Proved and unproved properties	Accumulated depreciation and depletion	Net value
June 30, 1981 —			
Canada	$29,534	$2,727	$26,807
United States	25,487	773	24,714
Total	$55,021	$3,500	$51,521
June 30, 1980 —			
Canada	$ 6,279	$1,243	$ 5,036
United States	1,795	376	1,419
Total	$ 8,074	$1,619	$ 6,455

	Property acquisition	Exploration	Development	Production expenses	Depreciation, depletion and amortization
Year ended June 30, 1981 —					
Canada	$ 422	$1,272	$1,450	$ 802	$1,177
United States	1,720	1,814	4,015	2,580	1,953
Total	$2,142	$3,086	$5,465	$3,382	$3,130
Year ended June 30, 1980 —					
Canada	$ 89	$ 751	$ 265	$ 137	$295
United States	86	410	82	39	318
Total	$ 175	$1,161	$ 347	$ 176	$ 613
Year ended June 30, 1979 —					
Canada	$ 130	$ 630	$ 17	$ 122	$ 325
United States	50	142	120	30	31
Total	$ 180	$ 772	$ 137	$ 152	$ 356

21. Net revenue from petroleum and natural gas producing activities
Net revenues from petrolem and natural gas production for each of the three years ended June 30, 1981 are as follows:

	Years ended June 30		
	1981	1980	1979
	(in thousands)		
Canada	$2,085	$ 989	$833
United States	5,573	196	58
Total	$7,658	$1,185	$891

Net revenues represent gross revenues from sales to unaffiliated customers less the related production costs. Production costs include lifting costs and royalties. Expenditures connected with the acquisition of, exploration for and development of oil and gas reserves and any depreciation, depletion and amortization of such costs that have been capitalized in the company's accounts are excluded from production costs.

22. Reclassification of comparative figures
Certain comparative amounts in the accompanying consolidated financial statements for fiscal 1980 and 1979 have been reclassified to conform with the presentation adopted in the 1981 fiscal year.

23. Subsequent events
(a) Subject to obtaining the appropriate approvals and fulfilling certain other conditions, it is proposed to amalgamate Skye and a wholly-owned subsidiary of the company, the effect of which would be the acquisition of the balance of the Skye shares held by outsiders on the basis of 1.125 of the company's common shares for each Skye share. On this basis the proposed amalgamation would require the issuance of approximately 1,337,750 Campbell common shares.

Had the company acquired 100% of the shares of Skye at the beginning of fiscal 1981, the interest of minority shareholders in the earnings of majority-owned companies would have been reduced by $2,213,000 and depreciation, depletion and amortization would have been increased by $880,000. This increase in net income of $1,333,000 together with the effect of the issue of 1,337,750 common shares on the proposed amalgamation described above, would have reduced consolidated earnings per share before extraordinary items by 3¢ from the amounts reported.

(b) Since June 30, 1981 the company has acquired 197,600 additional shares of Camchib on the open market at an average price of $6.32 per share. As a result, the company's interest in Camchib was increased to 34.6% of the common shares and 81.3% of the combined common and special shares of Camchib outstanding.

(c) On October 13, 1981, Camchib acquired 700,000 (approximately 9.9%) of the outstanding common shares of United Asbestos Inc. for $13 per share of which $11 per share was paid in cash with the balance satisfied through the issue of a $1,400,000 non-interest bearing note maturing on October 12, 1982. As at November 13, 1981, Campbell held a further 19.8% of the outstanding common shares of United Asbestos Inc. Management contemplates that Camchib will make a proposal for an amalgamation of Camchib and United Asbestos Inc. in the next several months. As Campbell and Camchib do not exercise significant influence over the operations of United Asbestos Inc., the investment continues to be carried at cost.

Supplemental Information

(Unaudited)

1. Petroleum and natural gas reserves

The quantities of proved and proved developed petroleum and natural gas reserves are determined by the company's engineering staff. Petroleum is measured in barrels and natural gas is measured in millions of cubic feet. The quantities of petroleum and natural gas reserves as at June 30, 1981, 1980 and 1979 are set out below. Proved and proved developed reserves at the beginning of fiscal 1981 include the reserves of Skye whereas reserves disclosed for prior years are those of Inverness only. Purchase of minerals in place in 1981 includes minerals in place of Skye Resources (Alberta) Ltd., control of which was acquired in that year.

	1981					
	Canada		United States		Total	
	Petroleum	Natural Gas	Petroleum	Natural Gas	Petroleum	Natural Gas
Proved reserves:						
Beginning of period	236,983	12,587	1,334,388	5,134	1,571,371	17,721
Revisions of previous estimates	(45,132)		(203,753)	(1,430)	(248,885)	(1,430)
Purchase of minerals in place	2,807,500	18,622			2,807,500	18,622
Extensions, discoveries and other additions	4,000	3,282	673,705	2,411	677,705	5,693
Production	(102,648)	(1,397)	(148,211)	(751)	(250,859)	(2,148)
End of period	2,900,703	33,094	1,656,129	5,364	4,556,832	38,458
Proved developed reserves:						
Beginning of period	231,800	12,587	1,189,908	5,086	1,421,708	17,673
End of period	2,223,626	32,084	1,188,891	4,561	3,412,517	36,645

	1980					
	Canada		United States		Total	
	Petroleum	Natural Gas	Petroleum	Natural Gas	Petroleum	Natural Gas
Proved reserves:						
Beginning of period	58,700	11,015	121,400	673	180,100	11,688
Revisions of previous estimates			(85,857)	(473)	(85,857)	(473)
Extensions, discoveries and other additions	186,703	2,397	188,160	47	374,863	2,444
Production	(8,420)	(825)	(8,498)	(40)	(16,918)	(865)
End of period	236,983	12,587	215,205	207	452,188	12,794
Proved developed reserves:						
Beginning of period	51,200	10,877	85,600	673	136,800	11,550
End of period	231,800	12,587	70,725	159	302,525	12,746

	1979					
	Canada		United States		Total	
	Petroleum	Natural Gas	Petroleum	Natural Gas	Petroleum	Natural Gas
Proved reserves:						
Beginning of period	61,000	9,533	229,700		290,700	9,533
Revisions of previous estimates			(124,800)		(124,800)	
Extensions, discoveries and other additions	800	2,258	22,000	681	22,800	2,939
Production	(3,100)	(776)	(5,500)	(8)	(8,600)	(784)
End of period	58,700	11,015	121,400	673	180,100	11,688
Proved developed reserves:						
Beginning of period	53,500	9,013	69,100		122,600	9,013
End of period	51,200	10,877	85,600	673	136,800	11,550

The data presented above for 1980 and 1979 incorporates available data which describes the fifteen-month period ended June 30, 1980 and the year ended March 31, 1979.

2. Estimated future net revenues and the present value thereof

Estimated future net revenues from estimated production of the company's proved and proved developed petroleum and natural gas reserves and the present value of such estimated future net revenues as at June 30, 1981, 1980 and 1979 have been determined by the company's engineering staff and are set out below. In computing future net revenues, petroleum and natural gas prices used were equal to the actual year end prices with no provision for increased prices. Future expenditures for both developing and producing the proved reserves are included in the calculations based on costs incurred in 1981 for similar activities. In determining the present value of estimated future net revenues, an annual discount factor of 10% was applied. Assumptions for prices, costs and the discount factor are based on guidelines issued by the SEC.

Estimated future net revenues as at June 30, 1981 are as follows:

	Canada		United States		Total	
	Proved	Proved developed	Proved	Proved developed	Proved	Proved developed
June 30						(in thousands)
1982	$ (1,298)	$ 1,356	$10,421	$ 8,222	$ 9,123	$ 9,578
1983	2,038	2,289	10,544	6,803	12,582	9,092
1984	2,828	2,554	8,656	5,701	11,484	8,255
Remainder	56,136	52,424	46,044	36,034	102,180	88,458
	$59,704	$58,623	$75,665	$56,760	$135,369	$115,383

The present value of estimated future net revenues from proved petroleum and natural gas reserves are as follows:

	Canada		United States		Total	
	Proved	Proved developed	Proved	Proved developed	Proved	Proved developed
June 30						(in thousands)
1981	$18,010	$19,456	$30,635	$23,034	$48,645	$42,490
1980	$ 9,049	$ 8,914	$ 2,696	$ 1,304	$11,745	$10,218
1979	$ 5,238	$ 5,195	$ 1,238	$ 985	$ 6,476	$ 6,180

3. Reserve recognition accounting ("RRA")

The SEC requires a statement of petroleum and natural gas producing activities and a statement of changes in present value of estimated future net revenues from proved petroleum and natural gas reserves on the RRA basis of valuation. Such statements bear no relationship to statements prepared on a historic cost basis in accordance with generally accepted accounting principles, and are not intended as an estimate of the fair market value of a company's petroleum and natural gas properties or anticipated cash flow from petroleum and natural gas exploration, production and development activities.

The following accounting policies have been followed in the preparation of the RRA material presented below. The estimates of proved reserves have been prepared by company engineers.

Under RRA, an asset is recognized and earnings are recorded when proved reserves are added through exploration and development activities. A dollar evaluation (RRA evaluation) of proved reserves has been developed as follows:

(a) Estimates are made of quantities of proved reserves and the future time periods over which they are anticipated to be produced, based on economic conditions in existence at year end.

(b) The dollar value of the estimated future production is based on prices and costs in existence at year end. The company has not entered into any long-term contractual arrangements.

(c) The resulting estimated future gross revenues stream is reduced by estimated future costs to develop and produce the proved reserves, based on year-end cost estimates.
(d) The resulting estimated future net revenue stream is discounted at 10% per annum to determine its present value.

The estimated impact of major factors affecting annual changes in proved reserves based on year-end RRA evaluations of proved reserves was developed as described below:
(a) "New field discoveries and extensions" represents proved reserves added from drilling exploratory and development wells.
(b) "Changes in prices" represents the approximate effect of changes from one period to the next in the prices used in the RRA evaluation calculation.
(c) "Interest factor accretion of discount" is computed in recognition of the increase resulting from the impact of the passage of time on the discounted cash flow approach to the evaluation of the proved reserves.
(d) "Other" includes the net effect of all changes affecting the RRA evaluation not otherwise reported.
(e) "Exploration and development costs" represents the costs of acquiring unproved properties and drilling exploratory wells which are deferred until the properties are evaluated and determined to be either productive or non-productive, at which time they are charged to expense. Other exploration costs are charged to expense as incurred.

Estimated future costs to develop proved reserves are deducted in the RRA evaluation of proved reserves. Subsequent revisions of estimated future development costs are included in revisions to reserves proved in prior years. Other development costs are charged to expense when related proved reserves are recognized.
(f) "Provision for income taxes" has been calculated using the income tax rates as calculated after making provision for the tax base for petroleum and natural gas properties, deductions for depletion and provisions for non-allowable royalties, petroleum and gas revenues taxes, and other expenses.
(g) Production and Funds Flow —
Under RRA, because earnings are recognized when proved reserves are discovered and as the RRA evaluation of proved reserves changes, no earnings are reported when petroleum and natural gas is produced. Consequently, RRA earnings may differ substantially from funds generated or required by current exploration, development and producing operations.

Summary of Petroleum and Natural Gas Producing Activities on the Basis of Reserve Recognition Accounting

(in thousands)

Year ended June 30	**1981**	1980
Additions and revisions to estimated petroleum and natural gas reserves:		
New field discoveries and extensions	**$ 15,072**	$ 3,314
Purchase of minerals in place	**11,211**	
	26,283	3,314
Revision of prior estimates:		
Changes in prices	**430**	4,191
Interest factor accretion of discount	**3,369**	589
Other	**(8,829)**	(2,167)
	(5,030)	2,613
Total additions to proved reserves	**21,253**	5,927
Related exploration and development costs incurred:		
Acquisition of unproved properties	**1,342**	114
Exploration	**3,086**	1,433
Development	**5,465**	460
Purchase of minerals in place	**11,211**	
	21,104	2,007
RRA earnings before income taxes	**149**	3,920
Provision for income taxes	**235**	1,185
RRA earnings (loss)	**$ (86)**	$ 2,735

Changes in Reserve Recognition Accounting Evaluation of Proved Petroleum and Natural Gas Reserves

(in thousands)

Year ended June 30	**1981**	1980
Beginning of year — Inverness	**$ 11,745**	$ 6,476
— Skye	**22,998**	
Revisions to reserves proven in prior years	**(5,030)**	2,613
New field discoveries and extensions	**15,072**	3,314
Purchase of minerals in place	**11,211**	
Projected development costs incurred	**307**	460
Production, net of lifting costs	**(7,658)**	(1,118)
End of year	**$ 48,645**	$ 11,745

The above summaries for the year ended June 30, 1981 include the petroleum and natural gas activities of Skye for the full fiscal year.

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A copy of the 1981 Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission, is available on request to the Secretary of the Company.

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Richard L. Lister,
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Executive Officer

Hugh Mogensen,
Vice-Chairman of the Board

Myron I. Gottlieb,
Secretary-Treasurer

J. Gordon Strasser,
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Charles A. Krause,
Vice-President — Exploration

John H. Rutherford,
Vice-President — Finance

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Christopher N. Letros,
Assistant-Treasurer

* Member of the Executive Committee
** Member of the Audit Committee
† Member of Public Relations Committee